



Democratic Services
White Cliffs Business Park
Dover
Kent CT16 3PJ

Telephone: (01304) 821199
Fax: (01304) 872300
DX: 6312
Minicom: (01304) 820115
Website: www.dover.gov.uk
e-mail: democraticservices@dover.gov.uk

6 June 2011

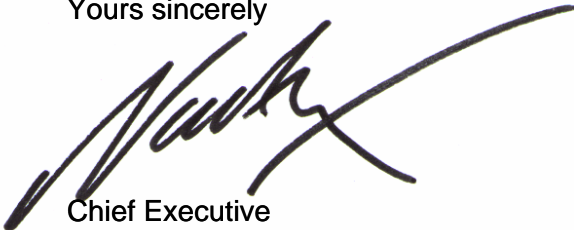
Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE** Committee will be held in the HMS Brave Room at these Offices on Thursday 16 June 2011 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Pauline Hodding on (01304) 872305 or by e-mail at paulinehodding@dover.gov.uk.

The meeting will be preceded by a training session for Members of and Nominated Substitutes to the Governance Committee starting at 4.00 pm.

Yours sincerely



Chief Executive

Governance Committee Membership:

Councillor T J Bartlett	(Chairman)
Councillor K E Morris	(Vice-Chairman)
Councillor B W Bano	
Councillor M R Eddy	
Councillor S J Jones	
Councillor M A Russell	

AGENDA

1. **APOLOGIES**
2. **APPOINTMENT OF SUBSTITUTE MEMBERS**
To note appointment of Substitute Members.
3. **DECLARATIONS OF INTEREST**

Members are required to disclose the existence and nature of a personal interest under this item of business or when the interest becomes apparent. An explanation

in general terms of the interest should also be given to the meeting. If the interest is also a prejudicial interest, the Member should then withdraw from the room or chamber.

4. **MINUTES** (Pages 4-7)

To confirm the attached Minutes of the meeting of the Committee held on 4 April 2011.

5. **TREASURY MANAGEMENT OUTTURN 2010/11**

To consider the attached report of the Director of Finance.

6. **GUIDELINES ON MEMBERS USE OF E-MAIL** (Pages 8-13)

To consider the attached report of the Director of Finance.

7. **STATEMENT OF EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS** (Pages 14-16)

To consider the attached joint report of the Director of Governance and Director of Finance.

8. **INTERNAL AUDIT QUARTERLY PROGRESS REPORT** (Pages 17-43)

To consider the attached report of the Head of East Kent Audit Partnership.

9. **INTERNAL AUDIT ANNUAL REPORT 2010/2011** (Pages 44-59)

To consider the attached report of the Head of East Kent Audit Partnership.

10. **2010/11 ANNUAL GOVERNANCE ASSURANCE STATEMENT** (Pages 60-84)

To consider the attached report of the Director of Governance.

11. **REPORT ON THE CONSULTATION BY THE DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT ON THE FUTURE OF LOCAL PUBLIC AUDIT** (Pages 85-101)

To consider the attached report of the Director of Finance.

12. **CHANGES TO THE CONSTITUTION – QUORUM FOR CABINET**

The Constitution Part 4 , Leader and Executive Procedure Rules, currently states that the quorum for meetings of the Executive shall be five. This figure was set when the total membership of the Executive was nine but, at the Annual Meeting of Council on 18 May 2011, the total membership was reduced to seven. The Leader has therefore asked that the quorum be reduced to four. Members are requested to approve this reduction and recommend the reduction to Council.

13. **ANNUAL AUDIT FEE 2011/12**

To consider the attached report of the Audit Commission.

14. **INTERIM AUDIT MEMORANDUM**

To consider the attached report of the Audit Commission.

Access to Meetings and Information

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes are normally published within five working days of each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting. Basic translations of specific reports and the Minutes are available on request in 12 different languages.
- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact: Pauline Hodding, Team Leader – Democratic Support, telephone: (01304) 872305 or email: paulinehodding@dovery.gov.uk for details.

Large print copies of this agenda can be supplied on request.

Minutes of the meeting of the **GOVERNANCE** Committee held at the Council Offices, Whitfield on Tuesday 4 April 2011 at 6.00 pm.

Present:

Chairman: Councillor M D Conolly

Councillors: M R Eddy
C E Kirby
J C Record

Officers: Director of Governance
Senior Democratic Services Officer

Apologies for absence were received from Councillors B W Bano and D A Mayes.

531 MINUTES

The Minutes of the meeting of the Committee held on 16 March 2011 were approved as a correct record and signed by the Chairman.

532 CHANGES TO THE CONSTITUTION 2011

The Committee considered the detailed report of the Director of Governance on the changes to the Council's Constitution which had been identified by a recent review undertaken by officers. The three Inquiry Reports, together with their respective appended documents, set out changes which had already been approved by Cabinet and/or Council decisions, legislation changes or to regularise existing practices; Constitutional changes to the Members' Allowances Scheme 2011/12; and amendments which reflected the New Executive Arrangements.

The Inquiry Reports would also be considered by Council at its meeting to be held on 6 April 2011 and a few minor amendments were suggested together with correction of typographical errors in the text.

Inquiry report 2 on Constitutional amendments to the Members' Allowances Scheme recommended that the Special Responsibility Allowances for the Chairman and Vice-Chairman of several Committees and Fora be removed. Concern was expressed that the General Purposes Committee exercised the power and functions of the Council, within the Budget and Policy framework, and it had further been recommended that it should take on the functions of the Appeals Committee. Although the General Purposes Committee met on an ad hoc basis the responsibility placed on the Chairman and Vice-Chairman of that Committee should be recognised by a Special Responsibility Allowance. Therefore the recommendation to Council in Inquiry Report 2 should be amended to remove reference to the General Purposes Committee.

Committee asked that consideration be given to the effects of the present budget cuts on the Council's functions and a Risk Management report be brought to a future meeting.

RESOLVED: (a) To recommend to Council:

- (1) That the following changes set out in Inquiry Report 1 be made to the Constitution as a

consequence of Cabinet and/or Council decisions, changes to legislation or to regularise existing practices:

- (i) the amendments set out in paragraphs 4.2 to 4.7, 4.9, 4.10, 4.12 and 4.13 of this report which had previously been decided by Council, be noted;
- (ii) the amendment to Part 2, Articles of the Constitution, Article 12 – Officers, set out in paragraph 4.1 of this report, be approved;
- (iii) the amendment to Part 4, Rules of Procedure, Access to Information Procedure, as set out in paragraph 4.8 of this report, be approved;
- (iv) the amendment to Part 4, Rules of Procedure, Officer Employment Procedure Rules, as set out in paragraph 4.11 of this report, be approved;
- (v) the amendment to Part 2, Articles of the Constitution, Article 15 – Review and Revision of the Constitution, as set out in paragraph 5.1 of this report be approved;
- (vi) the Appeals Committee be abolished and its powers transferred to the General Purposes Committee as set out in paragraph 5.2 of this report;
- (vii) the Licensing Policy Advisory Committee be abolished as set out in paragraph 5.3 of this report;
- (viii) *subject to the words "Services of Officers" being altered to "services of officers"*, the amendment to the Scheme of Officer Delegations for Executive functions set out in paragraph 5.4(a) of the report be approved;
- (ix) the amendment to the Scheme of Officer Delegations for Executive functions set out in paragraph 5.4(a) of this report which are subject to approval by the Leader of the Council be noted;
- (x) the changes to Part 3 of the Constitution Responsibility for Functions, as set out in Annex 6 to this report, be approved;

- (xi) the amendment to Part 4, Rules of Procedure, Council Procedure Rules (1)(1.1)(xiv) – State of the District, as set out in paragraph 5.5 of this report, be approved;
 - (xii) the amendment to Appendix 1 of the Constitution, Proper Officer Appointments for Specified Statutory Purposes, as set out in paragraph 5.6 of this report be approved.
- (2) That the following changes set out in Inquiry Report 2 be made to the Constitution, Members' Allowance Scheme 2011/12:
- (i) the amendments made by the Director of Finance to Part 6, Members' Allowance Scheme as set out below be noted:
 - (A) the Basic Allowance be reduced by 10% from £4,223.00 per annum to £3,800 per annum;
 - (B) all Special Responsibility Allowances be reduced by 10% as shown in annexe 1 to this report, with exception of those listed at C below;
 - (C) the Special Responsibility Allowance for the Chairman and Vice-Chairman of the Appeals Committee, Joint Staff Consultative Forum, Joint Health, Safety and Welfare Consultative Forum, and the Licensing Policy Advisory Group be removed;
 - (D) *the Special Responsibility Allowance for the Chairman and Vice-Chairman of the General Purposes Committee be retained and the Democratic Services Manager in consultation with the Leader of the Council be requested to identify means of funding the adjusted savings.*
 - (ii) the views of the East Kent Joint Independent Remuneration Panel be noted;
 - (iii) the £15.00 per month broadband payment (£180 per annum) be consolidated into the Members' Basic Allowance with effect with effect from the start of the municipal year

2011/12 in order to reduce administrative costs and provide increased transparency;

- (iv) the Members' Allowance Scheme for 2011/12, as set out in annexe 2 of this report, be approved and adopted.
- (3) That the changes set out in Appendix 1 to Inquiry Report 3, New Executive Arrangements, be approved with effect from 8 May 2011.
- (b) That a report on a revised Risk Management Strategy in respect of the effects of the present budget cuts on the Council's functions be brought to the September meeting of the Committee.

The meeting ended at 7.05 pm.

REPORT OF THE DIRECTOR OF FINANCE

GOVERNANCE COMMITTEE – 16 JUNE 2011

TREASURY MANAGEMENT UPDATE – YEAR ENDED 31 MARCH 2011

Recommendation

<i>That the report is received</i>

Contact Officer: Helen Lamb, extension 2063.

Purpose of the report

1. To provide Governance Committee with summary information on the year end Treasury Management outturn. A final version of this report including details of the year-end outturn for Treasury Management & Prudential Indicators will be circulated to Cabinet following the completion of the Statement of Accounts.

Summary of Performance

2. The Councils in-house investments (approximately £5.5m or 30% of year end investments) continued to outperform their benchmark¹ and achieved an average return of 1.39% for the year. The investments with the investment managers, Investec (approximately £12.6m or 70% of year end investments) also outperformed the benchmark¹ and achieved an average of 1.32% for the year.
3. The total interest received for the year is approximately £300k. This is lower than the original budget of £600k but higher than last reported to Governance as the Investec portfolio has outperformed their mid-year estimates.
4. The Council is expected to have remained within its Treasury Management and Prudential Code guidelines and there are no matters of concern to raise.

Background

5. CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009: it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.
6. In order to minimise the resource requirements in producing this report, a brief summary is provided below, and Appendix 1 contains a full report based on that provided by the Council's Treasury Management Advisers, Sector.

Annual Investment Strategy

7. The Council's in house investments continue to out perform their benchmark. However due to continuing low interest rates, investment income for the year is

¹ Benchmark used is the 7 day LIBD @ 0.52%

below the original budget of £600k. The original budget was based upon Sector's projections of interest rates but these have remained low for much longer than expected.

8. Members have asked that the Sector report provided to Governance is updated by the latest figures and we can therefore add the following:

Economic background update from Sector

9. • Britain's economy made a sluggish start to the year as household spending saw its sharpest quarterly fall in almost two years. The UK economy grew just 0.5% in Q1 2011. Annual growth was unrevised at 1.8%. The figures highlight the challenge facing the government as it tries to rein in Britain's budget deficit and will reinforce expectations that UK interest rates will stay at records lows door some months to come.
- The Bank of England in its May 2011 Inflation Report downgraded its expectations for GDP in 2011 to around 1.7%, from about 2% in its February report. In 2012, GDP is expected to be around 2.2%, from just under 3%. The Bank said the gloomier outlook reflected the dampening effects of rising energy prices and the impact that disappointing real wages will have on consumer spending.

Interest Rates update

10. We have received the following updated projections of the base rate from Sector as at 10 June 2011:

Jun 2011	Sep 2011	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013
0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%

Investment Update

11. The report at Appendix 1 contains information based on 31st March 2011. Since the year-end an additional investment of £1.5m held in the SIBA account over year-end to support cash-flow requirements has been invested with Natwest at a rate of 2% for 12 months.

New borrowing

12. New borrowing was undertaken during the final quarter of the financial year to finance the tennis centre project². Short term borrowing to help maintain the cash flow was undertaken in February whilst return of funds from our Investec portfolio was awaited.

Debt Rescheduling

13. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the quarter and the position continues to be monitored by Sector.

² The cost of servicing this borrowing is offset by a reduced grant to Vista, reflecting the additional income the new centre will generate. The centre is expected to start operating from summer 2011.

Compliance with Treasury and Prudential Limits

14. The Council has operated within the treasury limits and Prudential Indicators and in compliance with the Council's Treasury Management Practices. Full details of Iceland update
15. All advice received by the Council is subject to legal privilege, and restricted to three officers within the Council. Therefore all advice and information reported to Members has to be agreed with Bevan Brittan, who are acting as legal advisors to the group of local authorities seeking to recover monies from Iceland.
16. In April the Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks, Landsbanki and Glitnir. This judgment means that councils' claims have been recognised as deposits with priority status over other creditors' claims and will be at the front of the queue when it comes to getting their money back following the collapse of the failed Icelandic banks.
17. CIPFA guidance issued for the year-end accounts no longer permits authorities to defer the impact of the impairment in the value of the Icelandic Investment. The impact of the calculated reduction in the current value of the investment will be built in to the year-end position for the Statement of Accounts that are currently being produced. CIPFA currently estimate that the first repayment instalment for Landsbanki may be received in December 2011.
18. We have previously made provision for this impairment and therefore this treatment will not cause any additional impact on the Council's resources.

Background Papers

Medium Term Financial Plan 2010/11 – 2012/13

Attachments

Appendix 1– Sector Treasury Management Update

MIKE DAVIS

Director of Finance

The officer to whom reference should be made concerning inspection of the background papers is the Helen Lamb, Dover District Council, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2063.

Treasury Management Update

Quarter Ended 31st March 2011

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

1. Economic background:

The first quarter of 2011 saw:

- A fairly modest bounce-back in activity following the snow-related disruption in Q4;
- Indicators of consumer spending weaken;
- Little improvement in conditions in the labour market;
- Public sector borrowing remains on track to slightly undershoot the fiscal plans;
- CPI inflation continues to rise and pipeline price pressures build further;
- The Monetary Policy Committee move closer to raising interest rates;
- UK equities underperform and gilt yields rise;
- Economic growth pick up in the euro-zone, albeit from sluggish rates.

Output in the services sector rose by 1.3% m/m in January. But given that output fell by 1.1% in December, the level of output was only a little above November's level, suggesting that the underlying growth rate in the sector is close to zero. Official construction data revealed that output in the sector fell by 7.7% m/m in January, following December's large 16.6% fall. However, the recovery in manufacturing has gathered further pace. Industrial production rose by 0.5% m/m in January.

There are signs that the recovery in consumer spending has run out of steam. The official measure of retail sales volumes rose by 1.5% m/m in January. Sales volumes fell by 0.8% in February, leaving the level of sales essentially unchanged on its level of six months ago. The GfK composite measure of consumer confidence was consistent with quarterly falls in overall household spending in all three months of the quarter. Meanwhile, data on the labour market have painted a mixed picture. On the one hand, employment rose by 36,000 in the three months to January. The weighted average of the employment balance of the CIPS surveys also rose in January and February, pointing to faster employment growth ahead. However, ILO unemployment rose by 37,000 in the three months to January.

Data on the housing market have perhaps suggested that house prices have found a floor. The Halifax measure rose by 0.8% m/m in January, although it then fell by 0.9% in February. The Nationwide measure has been stronger – it fell by 0.1% in January, but then rose by 0.7% in February and 0.5% in March.

The fiscal tightening intensified at the start of the year, with the hike in VAT in early January. The latest public finance figures have suggested that borrowing is still on track to undershoot the OBR's full-year forecast of £148.5bn in 2010/11, perhaps by £5bn. The Budget on 23rd March left the scale of the fiscal squeeze largely unchanged. Elsewhere, there are still few signs that the net trade boost to growth is coming through. However, the trade in goods and services deficit narrowed from £5.5bn to £3.0bn in January, but this was largely driven by temporary factors, such as a bounce-back in exports following December's snow and the imposition of a new tax on aircraft imports.

Meanwhile, inflation has continued to rise. CPI inflation rose from 3.7% to 4.0% in January and then to 4.4% in February. The rise in inflation did not just reflect higher food and energy costs – core inflation also rose from 2.9% to 3.4%. This probably reflected January's VAT rise, given anecdotal evidence suggesting that retailers passed on a larger proportion of this year's VAT rise onto consumers than last year's. Pipeline price pressures have also continued to build – in particular, oil prices have surged from around \$95pb at the end of December to \$115pb at the end of March. But high inflation still looks set to be temporary. Households'

inflation expectations have not risen further – indeed, the YouGov/Citigroup measure of long term inflation expectations has fallen from 3.8% in December to 3.5% in March. And the annual rate of average earnings growth (exc. bonuses) was only 2.2% in January.

Nonetheless, the rise in inflation persuaded two more members of the Monetary Policy Committee (MPC) to start voting for rate hikes (Andrew Sentance was first joined by Martin Weale in January and then Spencer Dale in February). What's more, the Bank of England's February Inflation Report forecasts suggested that interest rates would need to rise broadly in line with the markets' expectations (then, for a 150bp rise in interest rates by the end of 2012) in order for inflation to hit the 2% CPI inflation target at the two year horizon. However, continued uncertainty about the underlying strength of the recovery persuaded the majority of MPC members to keep rates on hold at 0.5%. In financial markets, UK equities underperformed.

FTSE100 finished the quarter at around 5,950 – approximately the same level as at the end of 2010. 10-year gilt yields rose from 3.58% to 3.67% on the back of higher interest rate and inflation expectations. Meanwhile, sterling rose against the dollar from around \$1.55 to \$1.60, but fell from €1.16 to €1.13 against the euro. In the US, recent data has been mixed. On the one hand, the rise in both the US ISM manufacturing and non-manufacturing indices for February suggested that growth is picking up in the US economy. The unemployment rate has also fallen from 9.4% in December to 8.9% in February. But on the other hand, the rise in global food and energy prices appears to have weakened real consumer spending growth. Economic growth appears to have picked up in the euro-zone, albeit from sluggish rates. February's rise in the euro-zone composite PMI to its highest level since July 2006 left the index pointing to quarterly GDP growth of around 1%. Data on consumer spending in the region has also improved.

2. Interest rate forecast

The Council's treasury adviser, Sector, provides the following forecast:

Sector's Interest Rate View												
	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Sector's Bank Rate View	0.50%	0.75%	1.00%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%	3.00%	3.25%	3.25%
5yr PWLB Rate	3.70%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.50%	4.60%	4.70%	4.80%
10yr PWLB View	4.90%	4.90%	4.90%	4.90%	5.00%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%
25yr PWLB View	5.40%	5.40%	5.40%	5.40%	5.50%	5.50%	5.50%	5.50%	5.60%	5.60%	5.70%	5.70%
50yr PWLB Rate	5.40%	5.40%	5.40%	5.40%	5.50%	5.50%	5.50%	5.50%	5.60%	5.60%	5.70%	5.70%

- Sector has undertaken its normal quarterly review of interest rate forecasts after the issue of the Bank of England's quarterly Inflation Report and has no updates to their general expectations for the UK, EU or US economies except as specifically mentioned below:
 - The Bank of England's quarterly Inflation Report February 2011.
 - CPI in February was 4.4%.
 - The continuation of the sell off in the bond markets that has continued unabated in both the US and UK.
- Sectors view is that an increase in Bank Rate as soon as May 2011 (or August 2011) is unlikely to be in line with what we know about the Governor of the Bank of England own views. He has commented that:
 - Increases in Bank Rate can have no effect on limiting the inflation increase caused by the VAT hike in January.
 - Increases in Bank Rate can also have no effect on limiting the inflation increase caused by increases in oil prices and other commodities imported from abroad.
 - CPIY (CPIY excludes the effect of increases in indirect taxation) was only 2.8% in February i.e. is CPI the wrong target for the MPC as 'is an increase in indirect taxation inflation at all - rather than an increase in taxation?'
 - The UK growth forecast for 2011 was downgraded from 2.6% to 2.0% in the latest Inflation Report.
 - It is illogical that employees will put their current jobs at risk (when there are already 2.5m unemployed) by asking employers for significant pay rises (but with a few possible exceptions where select small groups of employees have significant strike power to damage the economy).

- Increases in Bank Rate could rebound badly in damaging consumer confidence, economic recovery and growth after the hugely disappointing fall in growth in Q4 2010.
 - The MPC have TWO targets: inflation is the primary one but there is a secondary target of supporting the Government's policy on economic growth and employment.
- The counter arguments of the hawks are:
 - The forecast for inflation two to three years ahead has been upped (despite the growth forecast being lowered!).
 - Those inflation forecasts are based on market expectations of timings of Bank Rate increases i.e. three increase in 2011 of 0.25% starting in May, without which the Bank's inflation forecasts would have been higher and above the 2% target two to three years ahead.
- However, the counter arguments of the doves are:
 - Economic statistics in the next few months could disappoint e.g. GDP growth down; unemployment rises significantly; bank lending growth is poor; the already weak consumer confidence and housing market weaken even further.
 - We have a major programme of tax rises, benefit cuts and expenditure reductions which have barely begun to bite.
 - We have no idea how much or how quickly rebalancing of the economy to exporting will happen; it could disappoint (though world growth is picking up at a very encouraging pace and the Fed, in January, revised upwards its growth forecast for 2011 from a band of 3.0% to 3.4% to 3.4% to 3.9%, [2012 3.5 – 4.4%, 2013 3.7 – 4.6%]).
- The balance of the above views is very delicate but Sector has moved the forecast for the first Bank Rate increase forward from Q4 2011 (November) to Q3 (August) on the basis that this reflects what the MPC is LIKELY to do rather than what the MPC OUGHT to do. The Sector view though, is that the MPC ought to hold off from increasing Bank Rate as long as possible in order to protect economic growth and that current inflation pressures are temporary and will fade.
- What will be absolutely crucial during 2011 is what actually happens to UK growth and how much the economy succeeds in expanding exports and reducing imports. No one can be very confident as to how that will actually turn out. Also, many over stretched consumers may be increasingly fearful of impending increases in interest rates pushing the cost of servicing their debts up and so may focus their cash resources on saving or reducing their debt levels. This could also be a significant negative impact on UK economic growth.
- Sector still maintain that the general trend beyond the next twelve months of gently rising gilt yields and PwLB rates is expected to remain unchanged as market fundamentals focus on the sheer volume of UK gilt issuance (and also US Treasury issuance) and the price of those new debt issues. Negative (or positive) developments in the EU sovereign debt crisis could significantly impact current safe haven flows of investor money into UK and US bonds and produce shorter term movements away from our central forecasts. However, Sector's revised forecasts are now building in the major shift in market sentiment that has occurred over the last three months whereby most of the gradual increase in gilt yields and PwLB rates Sector expected over the next few years back last August time, has now already occurred, i.e. increases have been much quicker than originally forecast.
- As there are significant potential downside risks to these forecasts and to the pace of both UK and world recovery, Sector would suggest that authorities err on the side of caution when setting their investment budgets.
- Any forecasts beyond a one year time horizon will be increasingly subject to being significantly amended as and when world events and financial markets change.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2010/11, which includes the Annual Investment Strategy, was approved as part of the Medium Term Financial Plan by the Council on 3rd March 2010. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.

A full list of investments held as at 31 March 2011, compared to Sector's counterparty list, and changes to Fitch, Moody's and S&P's credit ratings during quarter ended 31.03.2011 are shown in Annex 1.

Investment rates available in the market have continued at historically low levels. The level of funds available for reinvestment during the quarter was £2m. The authority currently holds £18m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for quarter ended 31.03.2011

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.52%	1.35%	£296,000

As illustrated, the authority outperformed the benchmark by 0.83%. The Council's original budgeted investment return for 2010/11 was £600k. The total interest received is forecast to be approximately £296k for the year. This is lower than the original budget and reductions have been reported to Members in the budget monitoring reports circulated throughout the year. The original budget was based upon Sector's projections of interest rates but these have remained low for much longer than expected.

4. New borrowing:

Sector's 25 year target rate for new long term borrowing for the quarter started at 5.00% and ended at 5.40%.

New borrowing was undertaken during the final quarter of the financial year to finance the tennis centre project. The cost of servicing this borrowing is offset by a reduced grant to Vista, reflecting the additional income the new centre will generate. The centre is expected to start operating from summer 2011.

Borrowing in advance of need. This Council did not borrow in advance of need during the quarter ended 31.03.2011.

5. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The year-end outturn Prudential and Treasury Indicators will be included in the final version of this report to be presented to Cabinet following the completion of the Statement of Accounts.

ANNEX 1: Investment portfolio

Investments held as at 31st March 2011 compared to Sector's counterparty list:

Investec Investments

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt Rating
Rabobank	Certificate of deposit	AA-/F1+/1	05/05/2011	0.60	1,500,000	Netherlands - Gov 'AAA'
Deutsche Bank	Certificate of deposit	AA-/F1+/1	09/09/2011	1.01	1,300,064	Germany - Gov 'AAA'
Lloyds TSB	Certificate of deposit	AA-/F1+/1	30/09/2011	1.10	2,000,000	UK - Gov 'AAA'
Nationwide	Certificate of deposit	AA-/F1+/1	09/09/2011	1.01	1,400,000	UK - Gov 'AAA'
HSBC Securities	Certificate of deposit	AA-/F1+/1	10/08/2011	0.91	2,100,000	UK - Gov 'AAA'
Credit Agricole	Certificate of deposit	AA-/F1+/1	21/06/2011	0.75	1,600,000	UK - Gov 'AAA'
					9,900,064	
UK	Gilt		07/12/2011	0.75	2,609,442	UK - Gov 'AAA'
GBP cash - settled balance					47,602	
Total Investec Investments					12,557,108	

In House Investments

Organisation	Type of investment	Current rating	Maturity Date	Market Yield %	Book Cost	Government Sovereign Rating	Duration
Landisbanke Islands	Term deposit	Not rated by sector	26/11/2008	6.170	1,000,000	Iceland - Gov 'BBB-'	364 days
Lloyds	Term deposit	AA-/F1+/1	22/11/2011	1.900	2,000,000	UK - Gov 'AAA'	364 days
Lloyds	Term deposit	AA-/F1+/1	14/12/2011	1.950	1,000,000	UK - Gov 'AAA'	364 days
Natwest	Bond	AA-/F1+/1	07/11/2011	2.000	1,000,000	UK - Gov 'AAA'	364 days
					5,000,000		

Call Accounts/MMF	Balance as at 31/03/11	Rate
Global Treasury Fund	40,106	0.58%
SIBA	1,500,927	0.75%
SIBA SEEDA	904,141	0.50%
SIBA HCA	46,797	0.50%
SIBA ASDA	10,879	0.50%
Bank of Scotland	3,615	0.75%
Alliance & Leicester	124,742	0.80%
	2,631,207	

REPORT OF THE DIRECTOR OF FINANCE

GOVERNANCE COMMITTEE – 16 JUNE 2011

GUIDELINES ON MEMBERS USE OF E-MAIL

Recommendation

It is recommended that:

1. *Governance Committee approve the principles for the use of Members e-mail.*
2. *The principles are added to the Members ICT Policy which will become applicable to email use as well.*

Contact Officer: Mike Davis, extension 2107.

Purpose of the Report

1. To introduce secure, standardised processes for e-mailing by council officers to Members.

Background

2. Members have recently been provided with guidance on the use of web enabled e-mail.
3. It is important that council officers and Members use the official e-mail addresses set up for Members. Some Members have requested that e-mails are sent to personal e-mail addresses, or that automatic forwarding is set up from Members official e-mail address to personal e-mail addresses.
4. These arrangements are not ideal for the following reasons:
 - e-mails from DDC may contain confidential or privileged information.
 - Personal e-mail addresses may be shared with partners or family.
 - Members may start responding to the public on Council business from personal addresses and this starts to blur the boundary between Council responses and personal responses, and may lose the gravitas and formality associated with a reply from the Council.
 - The contact groups maintained within the Council's e-mail system for efficient dissemination of information will need maintenance if they are to keep up to date with Members personal e-mail addresses. This is not efficient.
5. Any Member who has access to the internet, and therefore personal e-mail, should also be able to access the Council's web enabled e-mail.
6. It is therefore proposed that the following principles are adopted:

- All DDC e-mails to Members will only be sent to Members official DDC e-mail address.
- Members should not set up automatic forwarding of e-mails to their personal e-mail addresses.
- If Members do need to forward a specific e-mail to a personal e-mail address, they should consider carefully the contents of the e-mail and who else may have access to their personal e-mail address.
- email accounts (“a.user@dover.gov.uk”) identify Members with the Council, so Members must ensure that all emails they send are appropriate.
- Members must not make comments or statements in DDC emails that may result in actions for libel, defamation or other claims for damages

7. A copy of the Members ICT policy is attached at Annex 1. This was drafted primarily for the use of web sites, but the general principles in the policy also apply to e-mails and Members views are sought on the proposal that the policy is amended to include the points above and to be made applicable to e-mail use as well.

MIKE DAVIS

Director of Finance

K:\Accountancy\Audit and Governance\Guidelines on Members Use of ICT.doc



Members' ICT Policy

Acceptable Use Protocol

Elected members of Dover District Council who wish to avail themselves of a councillor web site (hereafter referred to as a 'Councillor Portal') are required to read and sign the Council's acceptable use policy for Councillor web sites before their web site is set up.

By signing the acceptable use policy the Elected Member confirms that he or she has read the District Council's guidance and policy on acceptable use and data protection and accepts the provisions of it.

This policy defines the purposes for which the Elected Member cannot use their site. In summary these are:

1. the introduction of content that may result in actions for libel, defamation or other claims for damages
2. processing personal data other than for the purpose stated at the time of capture
3. the promotion of any political party or campaigning organisation
4. the promotion of personal financial interests or commercial ventures
5. personal campaigns
6. using the site in an abusive or hateful manner

Further details are given below.

Defamation

A defamatory statement is one that causes an adverse effect on a person's reputation. It must be published to a third person and refer to the defamed individual. Libel, which is a form of defamation, is the publication of a statement which exposes a person to hatred, ridicule or contempt, or which causes him to be shunned or avoided, or which has a tendency to injure him in his office, trade or profession in the estimation of right-thinking members of society generally.

Elected Members may not use their Councillor Portals to publish defamatory statements or material. Anyone who believes that a Councillor has defamed them will be able to take legal action directly against the Councillor concerned. The relevant legislation is the Defamation Act 1996 and the full text can be found at <http://www.hmsso.gov.uk/acts/acts1996/1996031.htm>.

Elected Members are responsible for the content of their own Councillor Portal. An Elected Member is only permitted to publish information in the context of the elected member's official role in respect of matters of general public interest. The District Council is not responsible for approving content put on to Elected Member's Portals. For the avoidance of any doubt, the Council does not authorise or in any way sanction the publication of statements that might be construed as defamatory.

One or more Council officers within Democratic Services will have a responsibility as "editor" to check content authored by Members, including checking compliance with these guidelines. They may offer guidance or request changes to pages that appear not to comply. However, this is provided only as assistance. It remains the responsibility of the authoring Member to ensure that the material they produce complies with the law and these guidelines.

Data Protection

In managing a Portal, Elected Members may receive comments, enquiries or complaints from members of the public. Visitors to the site may register to receive occasional mailings. Councillors may refer to (or publish) material that is based upon information drawn from the District Council or obtained from external sources. All such personal information should be treated with care and respect for relevant data protection law.

Anyone processing personal data must comply with the eight enforceable principles of good practice. They say that data must be:

1. fairly and lawfully processed;
2. processed for limited purposes;
3. adequate, relevant and not excessive;
4. accurate;
5. not kept longer than necessary;
6. processed in accordance with the data subject's rights;
7. secure;
8. not transferred to countries without adequate protection.

Personal data covers both facts and opinions about the individual. It also includes information regarding the intentions of the data controller towards the individual. The definition of processing incorporates the concepts of 'obtaining', 'holding' and 'disclosing'.

Further details about these eight principles can be found at the Information Commissioner's web site: www.dataprotection.gov.uk/dpr/dpdoc.nsf.

In addition please refer to the District Council's web site privacy policy, which is available at www.dover.gov.uk/privacy.

The Data Protection Act applies, and the full text of the 1998 Act can be found at www.legislation.hmsso.gov.uk/acts/acts1998/19980029.htm.

By signing the acceptable use policy, the Elected Member confirms that he or she has read the District Council's guidance and policy on data protection and accepts the provisions of it.

Political Publicity

Because the District Council funds all Councillor Portals, Elected Members may not use their Portal to:

- promote political campaigns and advocate political stances on issues.
- promote a political party or persons identified with a political party.
- promote or oppose a view on a question of political controversy which is identifiable of the view of one political party and not of another.
- Elected Members may use their Portal to link to external websites of a political nature.

Section 4 of the 1986 Local Government Act enabled the Secretary of State to issue a Code of Practice on local authority publicity. The original Code was amended in 2001. The Code was made more flexible in relation to publicity about individual Elected Members and the relevant paragraphs are:

"Publicity about individual Councillors may include the contact details, the positions they hold in the Council (for example a member of the Executive or Chairman of a Scrutiny Committee) and their responsibilities. Publicity may also include information about individual Councillors' proposals, decisions and recommendations only where this is relevant to their position and responsibilities within the Council. All such publicity should be objective and explanatory and whilst it may acknowledge the part played by individual Councillors as holders of particular positions in the Council, personalisation of issues or personal image making should be avoided.

Publicity should not be, or liable to misrepresentation as being, party political. Whilst it may be appropriate to describe policies put forward by an individual Councillor which are relevant to her/his position and responsibilities within the Council, and to put forward his/her justification in defence of them, this should not be done in party political terms, using political slogans, expressly advocating policies of those of a particular political party, or directly attacking policies and opinions of other parties, groups or individuals."

Representation of the People Act Restrictions

During election times (from the 'notice of an election' to the election itself), most parts of Elected Members' web sites will be suspended. Visitors will still, however, be able to contact them through the web site.

Other Statutory Issues

Care should be taken to ensure compliance with Local Government legislation and local authority's policies on the following issues:

- The particular legislative requirements relating to discrimination/incitement to racial hatred etc (Anti-Terrorism, Crime And Security Act 2001 & Race Relations (Amendment) Act 2000)
- Publication of obscene material (Obscene Publications Act 1959, Protection of Children Act 1978, Criminal Justice Act 1988)
- The restriction on the promotion of homosexuality (Contravention of Clause 28 of the 1998 Local Government Act)

The text of all legislation can be found at www.hmso.gov.uk/acts.htm.

Elected Members' Code of Conduct

The District Council has a Members' Code of Conduct, which governs the conduct of Elected Members as an elected representative. Their use of Councillor Portals could breach that Code of Conduct. The Councillor Portal should not be used to breach these rules or any local protocols.

On a general level:

1. The Portal must not be used in a way that will bring Elected Members or the District Council into disrepute.
2. The Portal must promote equality by not discriminating unlawfully against any person, treating others with respect and not to do anything which compromises the impartiality of those who work for or on behalf of the authority.
3. To treat District Council officers' recommendations or known views impartially.
4. Elected Members must not disclose information given to them in confidence or information acquired, which they believe, is of a confidential nature without the consent of a person authorised to give it.
5. Elected Members must not use their Councillor Portal to disclose information which the Council has considered in exempt session, or which they are on notice is confidential for any other reason.
6. Elected Members must not use their Councillor Portal to secure personal advantage or secure use for themselves or others of the resources of the authority (for instance, by advertising a commercial service or by using the site to encourage the District Council to purchase a particular item or service).

Tainting of decision making through biased/closed minds

Elected Members who are in positions of determining quasi-judicial processes, particularly planning and licensing applications, or determining the outcome of consultation exercises must exercise care to keep an open mind on issues which he or she may be required to make decisions.

The use of individual websites to set out a clear position on a particular issue could well provide evidence of bias based on a particular personal interest or view, or a closed mind. This would demonstrate the artificiality of the Elected Member then purporting to consider openly all issues in the determination of that matter.

Elected Members should have regard to all relevant advice when reaching decisions and to give reasons for decisions.

Elected Members must give an accurate and even-handed account of discussions or processes that lead to decisions being taken. For example, they must not give a one-sided account of the reasons for a planning application being refused.

Signed: _____

Date: _____

Print Name: _____

JOINT REPORT OF THE DIRECTOR OF GOVERNANCE AND DIRECTOR OF FINANCE

GOVERNANCE COMMITTEE – 16 JUNE 2011

STATEMENT OF EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS

Recommendation

That Governance Committee accepts the findings of the review of the effectiveness of the Council's internal audit arrangements for 2010/11.

Contact Officer: David Randall, extension 2141.

Introduction and Background

1. The Accounts and Audit (Amendment) (England) Regulations 2006 impose on councils the need to undertake a regular review of their internal control arrangements; specific requirements are that:
 - the findings of the review of the system of internal control are considered by a committee of the relevant body, or by members of the body meeting as a whole. [Regulation 4 refers]
 - the effectiveness of their system of internal audit are reviewed at least once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 4. [Regulation 6 refers]
2. Subsequent guidance issued by the Department for Communities and Local Government indicates that the actions in paragraph 1 above do not require the establishment of an audit committee to undertake the exercise, although such a committee would provide an appropriate means through which to consider the findings of the review. In the case of Dover District Council, the S151 Officer and Monitoring Officer have undertaken the review, with responsibility for considering the findings being part of the powers of the Governance Committee as outlined in the Council's Constitution.
3. In line with the CIPFA guidance document 'Delivering Good Governance in Local Government' the Council is also obliged to publish an Annual Governance Assurance Statement (AGAS) within its Annual Accounts. The AGAS for Dover for 2010/11 can be found elsewhere on this Committee's agenda for the 16 June 2011 meeting.
4. The AGAS reflects the Council's overall governance arrangements and the effectiveness of these, based on evidence and assurances gained from a number of different sources, which includes information from the East Kent Audit Partnership (EKAP). The review of the effectiveness of the Council's internal audit arrangements is therefore very important in order to add credence to the assurances gained from the findings of the Audit Partnership.

5. It should be noted that this review is primarily about effectiveness, not process. In essence the need for the review is to ensure that the opinion in the annual report of the internal auditors may be relied upon as a key source of evidence for the Annual Governance Assurance Statement.
6. This report presents the findings of the review of the effectiveness of the internal audit arrangements for Dover District Council for 2010./11.

Review of the Effectiveness of the Internal Audit Function

7. The internal audit function is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Shepway and Thanet, as well as to Dover. As a result of this collaborative approach the partnership is able to be robustly resourced and provide a mechanism for promulgating best practice to the East Kent authorities that use its services.
8. The auditors are independent to the management of the Council and have access to the Chair of the Governance and Audit Committee if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
9. As at 31 March 2011 the Internal Auditors completed 445 days of review, which was spent undertaking a range of audits that have been in the main or are due to be reported to the Governance Committee. The EKAP undertake a regular schedule of follow up audits to ensure that management has implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual report, which can be found elsewhere on this Committee's agenda for 16 June 2011.
10. The East Kent Audit Partnership have met as a team and considered the CIPFA Checklist for compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. The results of this self-assessment showed that the internal audit function is 97% compliant with the Code against a target of 97%, with no identified actions to improve the score.
11. As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment.
12. The EKAP Audit Manager and Head of EKAP regularly meet with the Section 151 Officer and Monitoring Officer to monitor performance against the Audit Plan. They also discuss any matters arising in relation to the performance of the Audit Partnership. Periodically the outcome of these meetings is discussed with the External Auditors of the Audit Commission, to enable them to gain assurances as to the effectiveness of the process. The Section 151 Officer, the Director of Finance, and the Monitoring Officer, the Director of Governance, have reviewed the self assessment and are pleased to be able to provide Members with assurance that in their opinion the Partnership operate to high professional standards, fostering an effective working relationship with management without fettering the independence needed to be able to take a sufficiently independent perspective.
13. In addition, feedback from the audits and any other matters arising from the work of the partnership are considered at regular meetings that are held between the Section 151 Officers of each of the partnering councils and the auditors to manage any

issues arising from the process These meetings provide an additional opportunity to assess whether the internal audit function is operating in an effective manner and is compliant with the requirements of the CIPFA code.

14. Finally, the Audit Commission undertakes an evaluation of the work of the internal audit partnership against the CIPFA Code of Practice every three years. This review was last undertaken in November 2009. In summary the Audit Commission found that the EKAP "provides an adequate and effective review of the accounting records and systems of internal control".
15. Given the consistency of evidence of a quality internal audit service and the assessment outcomes referred to above, the S151 Officer and Monitoring Officer can confirm that in their opinions the Council has an effective internal audit function in place providing confidence in the context of their contribution to the Council's Annual Governance Assurance Statement.

Background Papers

The self-assessment undertaken by the East Kent Audit Partnership

Resource Implications

There are no additional resource implications arising from this report.

Impact on Corporate Objectives and Risks

If this review was not undertaken, there is a risk that the Accounts and Financial Statements for 2010/11 may be qualified.

Regulation 6 requires that the Council shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit. Regulation 4 requires that a committee of the Council consider the findings of the review of the system of internal control.

Attachments

None.

DAVID RANDALL

MIKE DAVIS

Director of Governance

Director of Finance

The officer to whom reference should be made concerning inspection of the background papers is the Director of Governance, Dover District Council, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2141

REPORT OF THE HEAD OF AUDIT PARTNERSHIP

GOVERNANCE COMMITTEE – 16 JUNE 2011

INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Recommendations

<p><i>Members are asked to note the Internal Audit Progress Report of the Head of the Audit Partnership.</i></p>
--

Contact Officer: Mrs C Parker, extension 2160

1.0 INTRODUCTION

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 31st March 2011.

2.0 AUDIT REPORTING

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed. Attached as Appendix 1 to the EKAP report is a summary of the Action Plans agreed in respect of the reviews covered during the period.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

2.5 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit

reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3.0 SUMMARY OF WORK

- 3.1 There have been nine Internal Audit reports that have been completed during the period. These have been allocated assurance levels as follows: four reviews were classified as providing Substantial assurance, two as Reasonable assurance, and one was Limited Assurance. Additionally, for two reports an assurance level was not applicable as the review related to Housing Benefit quarterly testing. Summaries of the report findings and the recommendations made are detailed within Annex 1 to this report.
- 3.2 In addition, ten follow-up reviews have been completed during the period. Of these, two related to areas, which were originally assessed as giving rise to a Limited assurance level and the assurance levels for these business areas remains unchanged. These are detailed in section 3 of the quarterly update report.
- 3.3 For the year to 31st March 2011, 445.21 chargeable days were delivered against the planned target of 429.45. Accordingly EKAP have been able to deliver an additional 15.72 days during 2010-11 which equates to achievement of 103.66% of the original planned number of days. All of the recommendations made within reports to management have been accepted by them.
- 3.4 Other performance figures for the East Kent Audit Partnership for 2010-11 show excellent performance against target.

Background Papers

- Internal Audit Annual Plan 2011-12 - Previously presented to and approved at the 16th March 2011 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Resource Implications

There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2011/12 budget.

Consultation Statement

Not Applicable.

Impact on Corporate Objectives and Corporate Risks

The recommendations arising from each individual internal audit review are designed to strengthen the Council's corporate governance arrangements, controls framework and risk management arrangements, as well as contributing to the provision of economic, efficient and effective services to the residents of the District.

Attachments

Annex 1 – EKAP Internal Audit Progress Report

CHRISTINE PARKER
Head of Audit Partnership



INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 31st March 2011.

2. SUMMARY OF REPORTS:

	Service / Topic	Assurance level
2.1	Homelessness	Substantial
2.2	Income	Substantial
2.3	Housing Benefits – Payment and Output	Substantial
2.4	Contract Monitoring/Management	Substantial
2.5	Performance Management	Reasonable
2.6	Coastal Management	Reasonable
2.7	Business Continuity	Limited
2.8	Housing Benefits Quarterly Testing (Quarter 3 of 2010-11)	Not Applicable
2.9	Housing Benefits Quarterly Testing (Quarter 4 of 2010-11)	Not Applicable

2.1 Homelessness – Substantial Assurance:

2.1.1 Audit Scope

To prevent households becoming homeless wherever possible, particularly through the provision of improved advice services, and closer working with the private rented sector.

2.1.2 Summary of Findings

Management can place Substantial Assurance on the system of internal controls in operation and an excellent service based upon the Audit Commission's former Key Lines of Enquiry.

The Homelessness process is straightforward and is managed effectively by a dedicated team of Council officers with assistance from a number of external agencies and organisations. Every approach to the Council for assistance in respect of homelessness is recorded both manually and electronically. Audit testing confirms that there are thorough records held and regular communication between the Council, members of the public and external organisations. Where a case has been determined as not homeless, advice is still offered to alleviate any issues a person may feel they have. The process runs smoothly and the progress of each referral is monitored effectively.

2.1.3 Management Response

As a result of the substantial assurance, a management response is not required.

2.2 Income – Substantial Assurance:

2.2.1 Audit Scope

To ensure that all income due to the Council is completely and accurately accounted for in a timely manner.

2.2.2 Summary of Findings

The Income process is working very well and all of the expected controls included in the review are extremely effective.

2.2.3 Management Response

As a result of the substantial assurance, a management response is not required.

2.3 Housing Benefits (Payments and Output) - Substantial Assurance:

2.3.1 Audit Scope

To ensure that payments of Housing Benefit are in accordance with regulations and the Council's standing orders and financial regulations.

2.3.2 Summary of Findings

This review confirmed that overall a sound system of control is currently being managed and achieved over the payment of housing and council tax benefit and the associated payment output. No issues were identified through the course of this review that would negate the substantial assurance opinion given in the 2008 audit on this operational activity.

2.3.3 Management Response

As a result of the substantial assurance, a management response is not required.

2.4 Contract Monitoring/Management - Substantial Assurance:

2.4.1 Audit Scope

To ensure that the Council derives the maximum possible value and the highest level of performance and customer satisfaction from its contracts.

2.4.2 Summary of Findings

The Contract Monitoring process is working very well and almost all of the expected controls are in place and are working effectively. Once a contract has commenced the manager responsible monitors the performance and expenditure against the

contract ensuring that the contractor adheres to the terms and conditions agreed. There were no concerns highlighted during the review as each monitoring officer had a good knowledge of their contract and were able to provide evidence to support their input.

2.4.3 Management Response

As a result of the substantial assurance, a management response is not required.

2.5 Performance Management - Reasonable Assurance:

2.5.1 Audit Scope

To ensure that the Council has established 'a strong and effective Performance Management culture which continues to be a fundamental requirement of an efficient, effective and reactive Council that is honest and transparent in its operations and in touch with its community'.

2.5.2 Summary of Findings

This audit has been conducted against the background of a major internal reorganisation driven by Government expenditure cuts and changes in the performance indicators required to be collected and therefore the performance management landscape is, understandably, having to adapt rapidly to reflect the changed circumstances.

The Council's performance management arrangements and processes are adapting to the changing environment providing the required data for management consumption.

2.5.3 Management Response

The Performance Management function has continued to supply key performance data to CMT and Members against a backdrop of changing statutory guidelines. During this current time of major organisational change and budget reductions it is important that performance data is relevant and provides the tools for officers and Members to ensure that service levels are maintained and value for money is achieved.

As noted in the Audit Report the performance reporting function will focus on the key issues to enable the Council to measure how it is meeting customer's expectations.

2.6 Coastal Management - Reasonable Assurance:

2.6.1 Audit Scope

- To reduce the risk to people and the developed and natural environment from flooding and coastal erosion by encouraging the provision of technically, environmentally and economically sound and sustainable defence measures.
- To support the provision of adequate and cost effective flood warning systems.
- To support the provision of adequate, economically, technically and environmentally sound and sustainable flood and coastal defence measures.

- To discourage inappropriate development in areas at risk from flooding and coastal erosion.

2.6.2 Summary of Findings

The aims and objectives of the government are reflected within the *Policy Statement on Flood and Coastal Defence*. Working practices, supporting documentation and legislative guidance were found to exist to facilitate the effective implementation of this document. A refresh of the *Policy Statement* however would now be appropriate as per the three-year policy statement review period.

2.6.3 Management Response

The findings and recommendations of the report are duly noted, the agreed time scales specified in the action plan will address the three medium term recommendations by September 2011.

2.7 Business Continuity - Limited Assurance:

2.7.1 Audit Scope

To ensure that adequate arrangements exist to enable the Council to continue providing core services in the event of a loss of data and/or facilities (ICT provision, telephony and accommodation etc) at the main Whitfield Offices.

2.7.2 Summary of Findings

The Council have a documented Business Continuity Plan (BCP) and ICT Disaster Recovery Plan (DRP) that are available to view on the Intranet and also via the Internet. However they are password protected and only key staff members have access to these documents. When examined by the auditor both were found to be out of date and overdue a review.

Management recognise that the Business Continuity Plan is due for review and they are taking action to address this. Kent County Council (KCC) have offered support and software to manage this task more effectively. During the review the auditor attended a meeting between DDC and KCC providing an overview of what was on offer and how it could assist this process and also link into other areas that would benefit the Council's documentation of procedures throughout the Council. The costs of employing these services are being considered and cost savings have been made and are earmarked for this purpose. An agreement is required to be made before work can commence.

During the audit review the Technical Architect undertook a review of the ICT DRP, as there were a number of key staff that have, since the last review, left the employ of the Council. Furthermore it was noted that the off site location documented for the safe keeping of back up disks (Castle Street) was incorrect as this had changed approximately two years ago, to the Dover Visitors' Information Centre. A visit was made to establish the whereabouts and also ascertain what was held offsite. Unfortunately access was not gained to the safe because VIC were not aware of where the key was held, however, assurances were later provided from ICT staff of the whereabouts of the safe key and what is held within the safe.

A visit was also made to the proposed secondary site where the recovery process would be undertaken in the event of an emergency. There is a concern that the training room at Castle Street may not be large enough and subsequently be unsuitable for this intended purpose.

The Council has procured external suppliers to provide the recovery arrangements in the event of an emergency occurring. One of these contracts was found to include an annual test within the annual charge. DDC have not been employing these annual tests or reporting on the effectiveness of what arrangements they have in place. It is therefore untested as to whether the external suppliers can provide what the Council are paying for and whether it would be more cost effective to employ more suitable alternatives. Enquiries were made with senior ICT officers as to what they believed costs would be to provide DDC's ICT services from scratch using today's technology, but to date no costings have been produced.

There are no regular risk assessments undertaken to establish what the risks are, the level of risk and the likelihood of each risk occurring and thereafter applying a proportionate set of actions to mitigate these should they occur. Furthermore there are no up to date statements of the objectives for each service area that highlights and prioritises the service needs in the event of a disaster that links back to the Business Continuity Plan and ICT Disaster Recovery Plan.

Whilst it has been acknowledged that Management are aware of a number of issues raised within this report, there are a number of recommendations made that may assist with introducing new procedures for the future. Should the Council go ahead with plans to use the new MATACO software, as part of the follow up process, audit will look at what improvements this makes, together with the action taken on the recommendations proposed and it is hoped that this will have a positive impact of the assurance level at that time.

2.7.3 Management Response

The work to update the Council's BCP was commenced before the audit was undertaken and some BCP workshops are being held in May for Managers to completely rewrite their departmental BCPs to reflect the new organisational structure and their dependencies on the emerging East Kent partnerships. This work will culminate with a new consolidated Corporate BCP which will be flexible to accommodate any further structural changes to the Council and partnership arrangements.

2.8 Housing Benefit Testing (Quarter 3 of 2010-11) – An assurance level is not applicable for this work:

- 2.8.1 Over the course of the 2010/11 financial year the East Kent Audit Partnership have completed a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.
- 2.8.2 For the third quarter of 2010/11 financial year (October to December 2010) five claims including new, cancellation and change of circumstances of each benefit type were randomly selected for verification.
- 2.8.3 In total 20 benefit claims were checked and out these one (5%) has failed the criteria set by the Audit Commission's verification guidelines. Two additional claims would have failed the criteria test but had already been identified and corrected prior to this

review via the internal checking regime. No queries were raised regarding data quality. In comparison, testing for Quarter 2 of 2010-11 identified six failures (30%) and two data quality queries.

2.9 Housing Benefit Testing (Quarter 4 of 2010-11) – An assurance level is not applicable for this work:

- 2.9.1 Over the course of the 2010/11 financial year the East Kent Audit Partnership have completed a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.
- 2.9.2 For the fourth quarter of 2010/11 financial year (January to March 2011) five claims including new, cancellation and change of circumstances of each benefit type were randomly selected for verification.
- 2.9.3 In total 20 benefit claims were checked and out these none have failed the criteria set by the Audit Commission's verification guideline.
- 2.9.3 Below is table of comparison against the other neighbouring authorities where a similar testing regime is carried out.
- 2.9.5 Now that shared working arrangements are in place it is important that a consistent approach to assessment is implemented across the authorities. Quality Assurance testing from within the Shared Partnership will hopefully highlight any areas of concern. The Managers at each authority have been made aware of the individual errors detected.

AUTHORITY	No of Claims Checked 2010/11	No of Failures Subsidy impact 2010/11	% of Failures Subsidy impact 2010/11	2009/10 Failure Subsidy Impact Rate %
Neighbouring Authority A	30	1	3.33%	8% (based on 20 claims checked)
Dover District Council	80	8	10%	8.75%
Neighbouring Authority B	80	12	15%	12.5% (Figure for full year based on 80 claims)

AUTHORITY	No of housing benefit claims at 01/04/2010	No of housing benefit claims at 31/03/2011	No of council tax benefit claims at 01/04/2010	No of council tax benefit claims at 31/03/2011	2010/2011 % Increase	
					HB	CTB
Neighbouring Authority A	8628	8987	11,056	11,482	4.16%	3.85%
Dover District Council	8229	8615	10,393	10,749	4.69%	3.43%
Neighbouring Authority B	13,843	14,554	17,502	18,262	5.14%	4.34%

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, eight follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	Public Health Burials	Substantial	Substantial	H	0	H	0
				M	1	M	0
				L	3	L	0
b)	Climate Change	Reasonable	Reasonable	H	4	H	4
				M	4	M	2
				L	0	L	0
c)	Choice Based Lettings	Substantial	Substantial	H	0	H	0
				M	0	M	0
				L	3	L	2
d)	Business Rates	Substantial	Substantial	H	0	H	0
				M	1	M	1
				L	0	L	0
e)	ICT File Security	Reasonable	Reasonable	H	4	H	4
				M	4	M	2
				L	0	L	0
f)	Procurement	Limited	Limited	H	10	H	8
				M	6	M	2
				L	0	L	0
g)	Leasehold Services	Limited	Limited	H	3	H	2
				M	7	M	4
				L	3	L	2
h)	Value for Money Strategy	Reasonable	Reasonable	H	0	H	0
				M	1	M	0
				L	3	L	0
i)	Risk Management	Reasonable	Reasonable	H	4	H	2
				M	3	M	1
				L	1	L	0
j)	Data Protection and FOI	Reasonable	Reasonable	H	3	H	1
				M	2	M	0
				L	2	L	0

- 3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Appendix 2 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

3.3 As highlighted in the above table, those areas previously reported as having a Limited or No assurance have been reviewed and Members are advised as follows:

f) Procurement:

Several of the high level recommendations have been put on hold under direction of the Procurement Panel until after the local elections have taken place as the outcome of this could impact on the future of the procurement service either as a stand alone function or as part of a shared service.

However it should be noted that the Procurement function has started to evolve with implementation of the Procurement Panel and the revising of the information available on the Internet and the intranet (Contract Register etc).

We therefore confirm that although the level of assurance placed on the internal controls remains at Limited, positive action is being taken to improve the Procurement function and once the future of the function is known (either stand alone or shared) then the outstanding high level recommendations could be implemented and any future audit assurance would be upwards.

g) Leasehold Services:

Despite the implementation dates management agreed at the time of the original audit review being overdue, there remains insufficient progress in implementing some of the controls to reduce the identified risks. As a consequence, controls have not improved and the identified risks remain of concern. The original audit opinion stands as Limited Assurance.

In particular there remain two high priority recommendations which management had undertaken to implement by 31st March 2011 but which remain outstanding. These two recommendations concerned the correction of existing defective leases and the establishment of an approved lease pro-forma to ensure that no further defective leases are entered into.

4.0 WORK-IN-PROGRESS:

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: HRA Business Plan, Planning, Building Control and s.106 agreements, the Whitecliffs Countryside Partnership, Pest Control, Grounds Maintenance and Bank Reconciliation.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2011-12 Audit plan was agreed by Members at the meeting of this Committee on 16th March 2011.

5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 Officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION:

- 6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the year to 31st March 2011, 445.21 chargeable days were delivered against the planned target of 429.45. Accordingly EKAP have been able to deliver an additional 15.72 days during 2010-11 which equates to achievement of 103.66% of the original planned number of days. All of the recommendations made within reports to management have been accepted by them.
- 7.2 In addition, EKAP have also been able a cost saving to the Council against the estimated costs for 2010-11.
- 7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators for 2010-11 is attached as Appendix 4. There are no concerns regarding the resources engaged or outputs achieved at this time, and the East Kent Audit partnership has performed well against it's targets for the third quarter of 2010-11.
- 7.4 The EKAP audit introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Appendix 4.

Attachments

- Appendix 1 Summary of High priority recommendations resulting from the period's work
- Appendix 2 Summary of High priority recommendations outstanding after follow-up.
- Appendix 3 Summary of services with Limited / No Assurances
- Appendix 4 Progress to 31st March 201 against the agreed 2010/11 Audit Plan.
- Appendix 5 EKAP Balanced Scorecard of Performance Indicators to 31st March 2011.
- Appendix 6 Assurance statements

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK
APPENDIX 1**

RECOMMENDATION/ WEAKNESS	ACTION TO BE TAKEN	RESPONSIBILITY AND TARGET DATE
Business Continuity – March 2011		
Effective risk assessments should be carried out on a regular basis to highlight the high-level risks that could arise through a complete or partial loss of IT data processing facilities.	There are risks included within the ICT Service Plan which will be updated annually.	Senior ICT Manager July 2011
Management should ensure that the Business Continuity Plan and Disaster Recovery Plan are regularly reviewed and formerly approved. This should also include a review of the major system changes.	The BCP will be updated during April 2011 as mentioned above in recommendation #3 above.	Performance and Risk Manager July 2011
Management should consider reviewing the value of employing external resources in an emergency situation and if we are achieving value for money.	The DR contract is let on a three year basis for the three East Kent authorities. The tendering process is competitive, and the costs are significantly lower than they were 20 years ago External resources are required, as none of the authorities has the resources required to purchase spare equipment to keep in store in case of an emergency.	Implemented Senior ICT Manager
Managers of each service area should utilise a corporate format to prepare an IT disaster recovery and business continuity plan in respect of their business areas that comply with the corporate framework.	Individual service plans will be produced as part on the BCP update.	Performance and Risk Manager July 2011
IT service users DR plans should cover the loss of Key personnel, keys systems; data held manually, address the need for manual operations where appropriate and should link to the corporate plan.	Individual service plans will be produced as part on the BCP update.	Performance and Risk Manager July 2011
Management should ensure that all key officers referred to in the Council's BCP and ICT DRP have received sufficient training ensuring that they are aware of their specific duties and responsibilities.	The work to update the Council's BCP will include workshops to collect information from officers and increase awareness of their BCP duties and responsibilities	Performance and Risk Manager July 2011

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK
APPENDIX 1**

RECOMMENDATION/ WEAKNESS	ACTION TO BE TAKEN	RESPONSIBILITY AND TARGET DATE
Management should implement a cost-effective testing plan or schedule for the BCP and DRP that is achievable and consistent with the actual needs of the Council and the results of which are recorded.	To be implemented once the ICT Shared Services Arrangements are In place for the DRP and once the BCP has been reviewed.	Performance and Risk Manager Technical Architect & Senior ICT Manager August 2011
There should be procedures in place that ensure that the results of the testing are formally reviewed and any weaknesses identified are promptly addressed and fed back into the BCP.	To be implemented once the ICT Shared Services Arrangements are In place for the DRP and once the BCP has been reviewed.	Performance and Risk Manager Technical Architect & Senior ICT Manager August 2011
Performance Management – March 2011		
HR should maintain an independent and active central role in overseeing the completion of annual personal performance plans and escalate to CMT details of any service areas that do not complete employee appraisals.	The arrangement with EKHRP is for each business to oversee its PPR process. EKHRP will act in an advisory role. The DDC owner for this process will be identified as part of the new structure and will liaise with EKHRP on the process	30 June 2011 Performance and Risk Manager to liaise with HR.

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
Climate Change – March 2011		
Establish a climate change policy that identifies the Councils role in meeting the targets / objectives of the 4 key levels at which climate change can be seen to impact.	<p>A target has been set through the PPR process to write a strategy / plan.</p> <p>Target Date: 31st March 2011</p> <p>Responsibility: Climate Change Officer</p>	<p>The climate performance indicators have been discontinued and are currently consultation is being carried out on the introduction of a new set of indicators and a proposal for Councils to publish an annual Greenhouse Gas report. In 2010 the Kent LA's and Medway formulated the Kent Environment Strategy and subsequently an Action Plan to implement the strategy. This strategy has been adopted by all Kent local authorities with the exception of Dover and one other</p> <p align="center">Recommendation Outstanding</p>
Ensure that the Carbon Reduction Plan has target dates and responsible officers in place for all its objectives.	<p>The Carbon Reduction Plan to be incorporated into the above plan.</p> <p>Target Date: 31st March 2011</p> <p>Responsibility: Climate Change Officer</p>	<p>Although Carbon reduction has progressed it has not been possible to embed the Carbon Reduction Plan into the Environment Strategy as this has not been adopted. Proposals for further carbon reduction focus on PhotoVoltaics and CHP (Combined Heat & Power)</p> <p align="center">Recommendation Outstanding</p>
The Nottingham Declaration needs to be signed off by the Leader and the Chief Executive to enhance the Authority's commitment to climate change and to support the climate change policy.	<p>The aim is to develop a joint declaration for both SDC and DDC to sign.</p> <p>Target Date: Declaration to be drafted by July with approval to sign being sought in Sept 2010.</p> <p>Responsibility: Climate Change Officer</p>	<p>A Cabinet report was drafted in October 2010 – however this has been put on hold pending portfolio holders approval. The portfolio holder and councillors have not been able to agree to signing a declaration on climate change.</p> <p align="center">Recommendation Outstanding</p>
Any future rewrites of the corporate plan to take into account the authorities	CMT to consider the priorities for the Corporate Plan.	A rewrite of the Corporate Plan is likely to take place once the elections have taken place in

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
commitment to the environment and to reduce the carbon footprint.	Target Date: Mid 2011 Responsibility: CMT	May 2011 <p align="center">Recommendation Outstanding</p>
ICT File Security – April 2011		
As an immediate action a pilot study by one section to measure their Outlook and Network footprint before and after conducting rigorous housekeeping and use of file management techniques e.g. archiving to zip file. If results are positive then the process should be undertaken across the Authority.	ICT will be issuing further guidance on email and network storage. Additional storage will be added to the network to accommodate the immediate pressures. Email archiving procedures are being tested by ICT, ahead of a wider rollout across the organisation	<p align="center">Revised Implementation Date: April 2011.</p> ICT are now part of East Kent Shared Services, and are working on a single email system for all partner authorities. The system will include controls to prevent excessive mail box sizes and retention of old material. <p align="center">Recommendation Outstanding</p>
Senior management should issue definitive instructions regarding carrying out active file management in Outlook and on the Network to all divisions.	Target Date: Summer 2010 Responsibility: Technical Architect - Subject to successful implementation and testing of email archive system	
In consultation with ICT management, Senior management should consider setting limits on storage space in Outlook and the Network as other authorities have.	Agreed, mailbox limits will be implemented as part of the email archiving project.	
That the PC and Laptop inventories should be physically reconciled to individual machines and the current user, a global recall initiated to confirm location, user and continued existence of machines in use to allow prompt removal or write off of machines that no longer exist.	Agreed that this is desirable, but ICT section lacks resource to conduct a global census. Proposed that the inventory is checked by: -Checking the Track It inventory entry for each PC when a fault/problem is reported -Reviewing the date last logged (held in Track It) to identify machines which are apparently inactive	<p align="center">Revised Implementation Date: April 2011</p> A physical survey of the PC and laptop resources has been undertaken, and the results are being matched against the information held in ICT. <p align="center">See 3 above</p> <p align="center">Recommendation Outstanding</p>

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
	<p>-Reviewing the entries in Active Directory, to identify inactive machines and (if necessary) disable them to see if they are still in use.</p> <p>Target Date: March 2011.</p> <p>Responsibility: Service Delivery Manager. Target – achieve 96% inventory accuracy (This represents an error rate of 40 out of a current recorded population of 750)</p>	
Procurement – May 2011		
<p>Review the Procurement Strategy to ensure that it is up to date and relevant to the desired procurement service that is to be developed and put in place (Procurement Panel, E-Procurement etc)</p> <p>As part of the Procurement Strategy review, establish an up date the action plan to take into account the future development of the procurement service.</p> <p>Ensure that the Procurement Strategy is easily accessible to all staff and that it is included within the procurement area on the Intranet.</p>	<p>Whilst we wait to see what impact shared services has on Procurement we will write a strategy covering the plans for Procurement and incorporating an action plan which will be available on the Intranet for all staff to view.</p> <p>Target Date: December 2010</p> <p>Responsibility: Financial Services Team</p>	<p>The Procurement Panel made the decision to put the Procurement Strategy on hold until after the local elections and then there will be a clearer picture on the possibility of a shared procurement function.</p> <p align="center">Recommendation still to be actioned</p>
<p>Liaise with the other East Kent authorities to establish the possible advantages of developing a joint procurement strategy; and</p>	<p>Quarterly meetings are held with Shepway, Canterbury and Thanet to discuss possible shared procurement opportunities.</p> <p>See comment above regarding shared</p>	<p>Quarterly meetings are held with the other East Kent authorities.</p> <p>The Procurement Panel made the decision to put the Procurement Strategy on hold until after</p>

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
Liaise with the other East Kent authorities to establish the possible advantages of a shared procurement service.	strategy. Target Date: December 2010 Responsibility: Financial Services Supervisor and Financial Services Officer (SM)	the local elections and then there will be a clearer picture on the possibility of a shared procurement function. Recommendation still to be actioned
Ensure that as e-tendering is developed the necessary controls are put in place so that the processes by the Democratic Services Team comply with Contract Standing Orders	A review of procedures will be carried out and updated. Target Date: December 2010 Responsibility: Financial Services Team	An email account has been set up and is being tested. Issues over the size of files that can held within the email account are to be looked at as some tender documents can be large. It is proposed that Democratic Services will only be given access to the email account at approved times in accordance with the tender process. Recommendation is ongoing as testing is still being carried out
Financial Services to reinstate the monitoring process to ensure that suppliers, contractors and consultants comply with Equalities and Diversity and Child Protection legislation. (i.e. Annual completion of a equalities monitoring questionnaire). As part of the process it should be decided who the results are reported to and what the information will be used for.	A review of procedures will be carried out and updated. Target Date: March 2011 Responsibility: Financial Services Team	This is to be carried out by Property Services with their PPQ forms and will eventually be rolled out across the authority. Recommendation is ongoing
Arrange the first meeting of the Procurement Panel so that its role, terms of conditions, reporting lines both upwards and downwards through the authority and	This will be arranged. Target Date: October 2010	Procurement panel is in place and several meetings have been held. Flowcharts have been developed and approved by CMT (January 2011). Budget Managers have been advised of

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
how it expects to receive information from departments / staff (Report template similar to the one used for Capital applications could be developed) can be put in place.	Responsibility: Financial Services Supervisor	these flowcharts but have still to be made available to staff though the Intranet. Recommendation is ongoing
Ensure that the role of the Procurement Panel is advertised across the authority (i.e. Net Consent or Screensaver message) so that staff are fully aware of its role and reporting process.	Once the meeting has been held the Intranet site will be updated and Budget Managers made aware of the Panels role. Target Date: October 2010 Responsibility: Financial Services Supervisor	This is still to be actioned Recommendation has not been actioned
The Procurement Panel and the Financial Services Supervisor should carry out 6 monthly reviews on goods procured to ensure that aggregated total expenditure for each company does not go over the EU threshold.	To be included on the agenda for the first meeting of the Panel. Target Date: October 2010 Responsibility: Financial Services Supervisor/Panel.	This is currently on the back burner pending the outcome of a possible shared service. As part of the new contract register work, expenditure for the last 2 years was looked at to see if suppliers needed to go on to the register. Several contractors / contracts have been identified through this exercise and have now been included on the register Recommendation is still to be actioned
Leasehold Services – May 2011		
Defective leases should be rectified.	The Strategic Housing Manager is undertaking discussions with Legal in respect of this issue with a view to the re-writing of leases where necessary. A decision on this matter is expected shortly however any re-writing of leases will take longer to implement.	This is ongoing discussions have taken place with legal but decision will come from East Kent Housing now. Recommendation Outstanding

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
	<p>Target Date: 31st March 2011</p> <p>Responsibility: Strategic Housing Manager</p>	
<p>The Lease pro forma should be reviewed to ensure references are up to date and consistency (e.g. Acts of Parliament “as amended”). The pro forma should be marked with a version control identifier (version number and date).</p>	<p>The Strategic Housing Manager is undertaking discussions with Legal in respect of the defective leases issue with a view to the re-writing of leases where necessary. A decision on this matter is expected shortly however any re-writing of leases will take longer to implement. A revised lease pro-forma will arise as a result of this exercise.</p> <p>Target Date: 31st March 2011</p> <p>Responsibility: Strategic Housing Manager</p>	<p>This will be a decision East Kent housing will make alongside good practice within the other 3 authroities.</p> <p align="center">Recommendation Outstanding</p>
Risk Management – May 2011		
<p>CMT meetings should have a standard item on the agenda for the consideration of emerging risks.</p>	<p>This will be incorporated into the CMT quarterly performance review which includes the Corporate Risk Register</p> <p>Target Date: November 2010</p> <p>Responsibility: Performance and Risk Manager.</p>	<p>Not yet incorporated; a new style performance report is under consideration. CMT will continue to receive a Performance Report. Corporate risks may be included or reported upon under separate cover.</p> <p align="center">Corporate Support Manager. Ongoing.</p>
<p>All current risks, recorded in the risk register, should be updated in line with their review dates.</p>	<p>Risk will be updated as required by the review dates and managers will be reminded to provide this information to the Risk Officers.</p> <p>Target Date: Ongoing</p>	<p>As a result of the new internal structures, Managers have been requested to identify new and existing risks as part of their redesigned Service Plans. The deadline for responses is 18 May 2011.</p> <p align="center">Corporate Support Manager.</p>

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - APPENDIX 2

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
	Responsibility: Performance and Risk Manager.	
Data Protection and FOI – May 2011		
<p>The issue of which authority is responsible under the Data Protection Act for registering with the ICO for the security of the personal payroll data held for non-Dover staff, needs to be resolved as a matter of urgency bearing in mind that the records have been hosted for many months since the handover began in April 2010.</p>	<p>The Hosting Agreement is being drafted by KCC and will be between EKS and KCC. Once agreed the appropriate DP registration will be applied for.</p> <p>Target Date: March 2011</p> <p>Responsibility: Performance and Risk Manager.</p>	<p>The signing of the Hosting Agreement is being progressed by EKS and once completed the Information Commissioner will be notified of the type of data that the Council is holding.</p> <p align="center">Ongoing.</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED				
Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Employee Benefits-in-Kind	16-03-11	Limited	Management action plan agreed and in the process of implementation.	Work-in-Progress
Business Continuity	16-06-11	Limited	Management action plan agreed and in the process of implementation.	Autumn 2011

PROGRESS AGAINST THE AGREED 2010-11 AUDIT PLAN.

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-11	Status and Assurance Level
FINANCIAL SYSTEMS:				
Housing Benefits – Payments	10	7.26	7.26	Finalised - Substantial
Shared Revenues and Benefits database with Thanet District Council	10	5.49	5.49	Finalised – Not Applicable
Housing Benefits – Quarterly Testing	20	23.13	23.13	2009-10 Quarter 4 – Finalised 2010-11 Quarter 1 – Finalised 2010-11 Quarter 2 – Finalised 2010-11 Quarter 3 – Finalised 2010-11 Quarter 4 - Finalised
Payroll	5	3.37	3.37	Finalised – Not Applicable
Bank Reconciliation	5	1.67	1.67	Work-in-Progress
Miscellaneous Income/Cash Collection	15	12.41	12.41	Finalised - Substantial
Business Rates	10	8.22	8.22	Finalised - Substantial
HOUSING SYSTEMS:				
Housing Rents	10	9.51	9.51	Finalised - Reasonable
HRA Business Plan	8	9.94	9.94	Finalised - Limited
Right to Buy	8	10.52	10.52	Finalised - Reasonable
Homelessness	10	10.6	10.6	Finalised - Substantial
ICT SYSTEMS:				
ICT – Procurement and Disposal	7	0	0	Include in 2011-12 plan
ICT - Internet and e-mail	7	0	0	Include in 2011-12 plan
ICT – Physical and Environment	7	0	0	Include in 2011-12 plan
HUMAN RESOURCES RELATED:				
Recruitment and CRB	10	0.17	0.17	Deleted from Plan due to very low levels of recruitment.
Absence Management	10	11.98	11.98	Finalised – Not Applicable
GOVERNANCE RELATED:				
Data Protection and FOI	10	14.39	14.39	Finalised - Reasonable
Members' Code of Conduct and Standards Arrangements	8	7.77	7.77	Finalised - Substantial
Performance Management	10	11.91	11.91	Finalised - Reasonable

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-11	Status and Assurance Level
Value for Money Strategy	10	11.31	11.31	Finalised - Reasonable
Business Continuity	10	10.74	10.74	Finalised - Limited
Corporate/CMT/Committee	30	48.74	48.74	Finalised for 2010-11
CONTRACT RELATED:				
Compliance with Contract Standing Orders	15	0.18	0.18	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Contract Monitoring	10	9.36	9.36	Finalised - Substantial
Receipt and Opening of Tenders	5	3.62	3.62	Finalised – Reasonable
Procurement	15	17.16	17.16	Finalised - Limited
SERVICE LEVEL:				
Employee Benefits-in-Kind	10	14.8	14.8	Finalised - Limited
Customer Services/Gateway	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Public Health Burials	8	8.04	8.04	Finalised - Substantial
Coast Protection	10	11.33	11.33	Quarter 4
Cemeteries	10	10.82	10.82	Finalised - Substantial
Planning and Building Control	20	23.9	23.9	Work-in-Progress
Museums	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Electoral Registration	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Equality and Diversity	7	0.37	0.37	Delete from plan to accommodate higher risk audit work
Disabled Facilities Grants	10	9.63	9.63	Finalised – Substantial
CCTV	10	11.35	11.35	Finalised - Substantial
OTHER				
Liaison with External Auditors	5	1.12	1.12	Finalised for 2010-11
Follow-up Work	15	28.45	28.45	Finalised for 2010-11
UNPLANNED WORK				

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-11	Status and Assurance Level
Procurement Panel	0	1.6	1.6	Finalised for 2010-11
Sheltered Accommodation Expenditure	0	3.82	3.82	Finalised – Not Applicable
Anti-Money Laundering Arrangements	0	1.16	1.16	Finalised – Reasonable
Housing Benefits Back-log Validation	0	0.58	0.58	Finalised – Not Applicable
EK Services – Validation of Tranche 1 Performance Indicators	0	6.19	6.19	Finalised – Not Applicable
FINALISATION OF 2009-10 AUDITS				
Child Protection	19.45	62.6	15.03	Finalised - Limited
Insurance			3.39	Finalised – Substantial
Choice Based Lettings			5.95	Finalised – Substantial
Debtors			5.39	Finalised - Reasonable
Housing Benefits – Fraud Investigation Arrangements			1.28	Finalised – Limited
Regeneration			1.97	Finalised – Reasonable/Limited
Main Accounting System			0.47	Finalised – Substantial
Housing Benefits - Overpayments			3.55	Finalised – Substantial
Write-offs			0.75	Finalised – Limited/Nil
Climate Change			0.33	Finalised – Reasonable
Performance Management			0.07	Finalised – Reasonable
Employee Health & Safety			12.35	Finalised - Reasonable
Leasehold Services			0.31	Finalised – Limited
Local Code of Corporate Governance			2.53	Finalised – Substantial
Payroll			0.41	Finalised – Reasonable
Risk Management			8.82	Finalised - Reasonable
Total	429.45	445.21	445.21	103.66 % complete as at 31st March 2011
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Customer Services	4	3.44	3.44	First Level Controller sign off charged to project

BALANCED SCORECARD – QUARTER 4

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>
	Quarter 4				
Chargeable as % of available days	88%	75%	Cost per Audit Day (Reported Annually)	£268	£300
Chargeable days as % of planned days	104%	100%			
Follow up Reviews;					
<ul style="list-style-type: none"> • Issued • Not yet due • Now overdue for Follow Up 	<p>31</p> <p>6</p> <p>4</p>	<p>-</p> <p>-</p> <p>0</p>			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

BALANCED SCORECARD – QUARTER 4

<u>CUSTOMER PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	INNOVATION & LEARNING PERSPECTIVE:	<u>2010-11 Actual</u>	<u>Target</u>
	Quarter 4			Quarter 4	
Number of Satisfaction Questionnaires Issued;	42		Percentage of staff qualified to relevant technician level	76%	75%
Number of completed questionnaires received back;	8		Percentage of staff holding a relevant higher level qualification	32%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	24%	24%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner 	100%	100%	Number of days technical training per FTE	3.07	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	88%	90%	Percentage of staff meeting formal CPD requirements	32%	32%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	100%	100%	Number of business efficiency/ service Improvement recommendations introduced	38	-



Appendix 6

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

REPORT OF THE HEAD OF AUDIT PARTNERSHIP

GOVERNANCE COMMITTEE – 16 JUNE 2011

INTERNAL AUDIT ANNUAL REPORT 2010/11

Recommendations

<i>Members are asked to note the Annual Report of the East Kent Audit Partnership for 2010-11</i>

Contact Officer: Mrs. C Parker, extension 2160

1.0 INTRODUCTION

1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and security of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Present a summary of the internal audit work undertaken to formulate the opinion.
- Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Governance Assurance Statement.
- Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
- Comment on compliance with the CiPFA Code of Practice for Internal Audit in Local Government, and report the results of the Internal Audit quality assurance programme.

1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2010/11 for Dover District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice.

1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to port best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement. For example;-

- The cemeteries review identified risks regarding headstone and monument maintenance, the best practice was ported to all partners.
- An audit regarding benefits in kind was paid for by the savings identified in National Insurance and Tax in that review.
- The income audit identified a saving surrounding the VAT treatment of Building Control Regularisation Fees, which covered the cost of the audit.

The audit plan for this year has been delivered with an additional 15.76 days carried over as work in progress at the year-end. The performance figures for the East Kent Audit Partnership as a whole for the year show impressive performance against target, and indeed the EKAP has once again delivered financial savings against its agreed budget to all its partners in the delivery of the service.

Background Papers

- **Internal Audit Annual Plan 2010-11 - Previously presented to and approved at the March 2010 Governance Committee meeting.**
- **Internal Audit working papers - Held by the East Kent Audit Partnership.**

Resource Implications

There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2010/11 budget.

Consultation Statement

Not Applicable.

Impact on Corporate Objectives and Corporate Risks

The recommendations arising from each individual internal audit review are designed to strengthen the Council's corporate governance arrangements, controls framework and risk management arrangements, as well as contributing to the provision of economic, efficient and effective services to the residents of the District. This report summarises the work of the East Kent Audit Partnership for the year 2009-10 in accordance with the CiPFA Code and best practice.

Attachments

Annex 1 – East Kent Audit Partnership Annual Report 2010/11

CHRISTINE PARKER

Head of Audit Partnership

Annual Internal Audit Report for Dover District Council 2010-11

1. Introduction

The CIPFA Code of Practice for Internal Audit in Local Government for the United Kingdom 2006 defines internal audit as:

"An assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic efficient and effective use of resources."

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter. The East Kent Audit Partnership (EKAP) aims to comply with the CIPFA Code of Practice, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council's review of the system of internal control in operation throughout the year.

The key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each council's anti fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service, and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through bi-annual meetings.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

The audit plan is agreed with members annually following a risk assessment of all the key systems and issues facing the Council. This assessment also ensures suitable time and resources are devoted to reviewing areas on a cyclical basis. The work of Internal Audit includes agreeing with service managers that a control risk exists and

setting out a course of action to rectify this. The value of the advice given by Internal Audit is evidenced through the acceptance of the majority of audit recommendations, and the feedback from the customer satisfaction survey.

During 2010/2011, 153 recommendations were made in the agreed final audit reports to Dover District Council. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	105	69%
Medium	9	6%
Low	39	25%
TOTAL	153	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high-risk recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2010/11 the EKAP has further analysed the Council's progress in implementing agreed recommendations- out of 153 recommendations whilst 75% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix A for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. Where the assurance level is either 'no' or 'limited', or where high risks have been identified a follow up review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 30 pieces of work completed for Dover District Council over the course of the year is as follows:

Assurance	No.	Percentage
Substantial	9	43%
Reasonable	7	33%
Limited	5	24%
No	0	0 %
Work in Progress at Year-End	3	
Not Applicable	6	

NB: 'Not Applicable' is shown against quarterly benefit check work, special investigations or work commissioned by management that did not merit an assurance level.

Taken together 76% of the reviews account for substantial or reasonable assurance, whilst only 24% of reviews placed a limited or gave no assurance to management on the system of internal control in operation at the time of the review.

2.2 Follow Up

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action taken by the responsible auditor, the recommendations under review are either:

- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk.

At the conclusion of the follow up review the overall assurance level is re-assessed. The results for follow up for 2010/11 is set out below. The obvious shift to the right in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2010-11.

Total Follow Ups undertaken 31	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	1	6	12	12
Revised Opinion	0	3	11	17

There are no fundamental issues of note arising from the audits undertaken in 2010/11. There is however a number of matters reported in section 3 below.

Understandably, the follow up review is timed to allow the service manager sufficient time to make progress in implementing the agreed actions. To reassure the committee, those areas receiving limited or no assurance that are yet to be followed up are detailed in the following table, these areas are also recorded as an appendix to the quarterly report so that their progress is transparently monitored. The results of the follow up reviews will be reported to the quarterly committee at the appropriate time:

Area Under Review	Original Assurance	Follow Up Due
Employee BIK Payments	Limited	Early Spring 2011
Leasehold Services	Limited	Early Spring 2011
Procurement	Limited	Early Spring 2011
CRB Checks	Limited	Early Spring 2011

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its role in this area and is alert to the risk of fraud and corruption when undertaking its work. The EKAP will immediately

report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some reactive work was carried out during the year at the request of management, during the year 2010/11 there have been no fraud investigations conducted by the EKAP on behalf of Dover District Council.

2.4 Completion of Audit Plan

Appendix B shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 440.55 audit days were completed for Dover District Council during 2010/2011 this covers the budgeted 420 days plus the days brought forward at the year-end 2009/10. The EKAP was formed in October 2007, it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites- some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since 2007/08 concludes that EKAP is currently ahead at Dover District Council, as shown in the table below:

	DDC Audit Days Required from EKAP				
	2007-08	2008-09	2009-10	2010-11	Total
	490	450	450	420	1810
EKAP Days Delivered	489.19	459.33	431.22	445.21	1824.95
Percentage	99.8%	102%	95.8%	106%	100.83%
Days rolled forward	-0.81	+9.33	-18.78	+25.21	+14.95

3. Overall assessment of the System of Internal Controls 2010/11

Based on the work of the EKAP on behalf of Dover District Council during 2010/11, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have very good level of assurance in respect of all of its main financial systems and the majority of its Governance arrangements. Many of the main financial systems, which feed into the production of the Council’s Financial Statements, have achieved a Substantial assurance level following audit reviews. The Council can therefore be very assured in these areas. This position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There were four areas where only a limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers' attention. These reviews are shown in the table above (Paragraph 2.2) along with the details of our planned follow up activity.

4. Significant issues arising in 2010/11

From the work undertaken during 2010/11, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time. It is particularly pleasing to report that after follow up there were no high-risk recommendations outstanding at the year-end.

The three reviews (shown in the table at 2.2) that were originally Limited Assurance, which remained Limited Assurance after follow up have been escalated to the Governance & Audit Committee's attention during the year. Management has responded to the Governance & Audit Committee with progress achieved since the follow up review and any outstanding concerns are reflected in section 3, The reviews were;

Area Under Review	Original Assurance (Date to G&A Cttee)	Assurance after Follow up (Date to G&A Cttee)	Management Action
HB Fraud Investigation Arrangements	Limited 16.06.10	Limited 29.11.10	Good Progress likely to be Reasonable Assurance at next progress report
Compliance with CSO's	Limited 16.06.10	Limited 29.11.10	Good Progress likely to be Reasonable Assurance at next progress report due in early Spring 2011
CRB Checks	Limited 30.09.10	Limited Referred Forward as new system being set up	Good Progress likely to be Reasonable Assurance at next progress report due in early Spring 2011

5. Internal Audit Performance

5.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 8.2. Additional audit days have been provided via audit consultants or contractors in order to meet the planned workloads. How much Internal Audit resource is provided to each of the partner authorities depends on a variety of factors, including the council's historical internal control environment and the new demands of meeting the requirements of corporate governance. Any changes in the agreed plans or the level of resources are reported quarterly to each audit committee and through regular meetings with each Section 151 Officer.

5.2 Skills and Development

The East Kent Audit Partnership is staffed by a mix of qualified and part-qualified officers, who all continue to develop their skills through a range of on-the-job training, external and in-house training courses and seminars and use of the corporate e-learning resource. Skills development during 2010/11 included:

- (a) Attendance by all Kent local authority internal audit staff at the Kent Audit Conference. This provides an opportunity to exchange knowledge and skills and to receive guidance on current developments in the internal audit profession.
- (b) Two members of staff continuing studies for ACCA.
- (c) In house training on the use of specialised auditing software used to manipulate and test databases called IDEA.
- (d) Use of modules on the corporate e-learning package.
- (e) Continuing to engage external audit providers, for specific audit assignments to maximise the skills that can be bought-in to enhance internal audit resources.

By using a mix of in-house expertise through the East Kent Audit Partnership and other outside resources the team is able to call upon a number of auditors with a wide range of skills and experience and also bring fresh insight into areas being audited as a means of securing the most effective and economic delivery of the service.

5.3. Plan Performance

The analysis in Appendix B shows the individual reviews that were completed during the year. As at 31st March 2011 the EKAP was slightly ahead and had delivered 445.21 days against 429.45 owed. These days will be adjusted in 2011/12 as part of the rolling three-year plan process.

5.4 Internal Audit Performance against its Targets

Internal Audit is committed to continuous improvement and has various measures to ensure the service can strive to achieve its goals and ambitions. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix C.

5.4.1 Satisfaction with Internal Audit Service

EKAP uses an electronic client satisfaction questionnaire, which is issued at the conclusion of each audit to receive feedback on the quality and perception of the service. The results and comments made by auditees and service managers are reported quarterly to committee. Additional requests for advice and specific audit requests by management are also indicative of the value placed upon the service received from EKAP. Customer feedback is used to drive continuous improvement within the service, where appropriate constructive feedback is received it is discussed at a team meeting and any improvement actions taken as a result are reflected in a change to the Audit Manual, which records in detail all the work instructions to the auditors.

5.4.2 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Audit Manager or Head of the Audit Partnership. In each case this includes a detailed

examination of the working papers, action and review points, at all stages of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Audit Manager, regular meetings are held with the s.151 Officer. The minutes to these meetings are additional evidence to the strategic management of the EKAP performance.

5.4.3 External Quality Assurance

The Audit Commission has always carried out an annual assessment each year and a detailed quality assessment of internal audit every three years. The Audit Commission reviewed the EKAP arrangements in detail during 2009/10 and the results of that review were reported to committee. It is pleasing to report that no areas for improvement were raised during that review and the EKAP was found to comply with the CIPFA code. The requirement for the Audit Commission to complete this review has been removed and the EKAP will look for other sources of assurance on the quality of its processes and outputs.

The EKAP self-assessment of the level of CIPFA Code compliance shows that EKAP is currently 97% compliant against a target of 97%. There are no identified actions to improve this score.

The Accounts & Audit Regulations require that each authority undertake an annual review of the effectiveness of internal audit arrangements and to report this alongside the Governance Assurance Statement within the Council's Statement of Accounts. Therefore this report, summarising the achievements of Internal Audit for the year to 31st March 2011, is also designed to feed into that overall assessment process.

5.4.4 Liaison between Internal Audit and External Audit.

Joint liaison meetings with the Audit Commission's audit managers for the partner authorities and the EKAP audit managers are held quarterly to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Dover District Council. Consequently, the assurance, which follows is based on EKAP reviews of Dover District Council's services.

5.4.5 Financial Performance

Expenditure and recharges for year 2010/11 are all in line with the budget. The financial management of the Internal Audit cost centre held by Dover District Council has been on target, and 10% savings have been achieved.

As can be seen, the EKAP has been able to exceed its targets for financial performance for 2010/11. The EKAP now has a track record for bringing down daily rates (see table below). This daily rate excludes any internal recharges that are added to the service by the Council, which are not under the control or management of the EKAP. This equates to a saving of £32 per day against the original target for 2010/11 of £300/day; a total financial saving to Dover District Council £13,358.42 for 2010/11 (or 10% against the original budget of £300/day).

Year	Cost / Audit Day
2006-07	£288

2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281
2010-11	£268

The EKAP was formed to provide a resilient, professional service and therefore to achieve financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. Additionally, external fee earning work that has been carried out, this year some £17,255.75 was procured from EKAP by other public sector bodies and for Interreg Grant reviews which reduces the costs to the partners. The net result is a reduced EKAP cost per audit day of some £32 per day below the original budget estimate. In the current climate this is excellent performance and the partner authorities have all enjoyed the savings generated by the EKAP.

6. Overall Conclusion

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2010/2011, however, this is as expected and there are no matters of concern to be raised at this time.

The work of Internal Audit and this report contribute to the overall internal control environment in operation within the Council, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts. The EKAP assesses the overall system of internal control in operation throughout 2010/11 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Performance Against the Agreed 2010/11 Audit Plan

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-11	Status and Assurance Level
FINANCIAL SYSTEMS:				
Housing Benefits – Payments	10	7.26	7.26	Finalised - Substantial
Shared Revenues and Benefits database with Thanet District Council	10	5.49	5.49	Finalised – Not Applicable
Housing Benefits – Quarterly Testing	20	23.13	23.13	2009-10 Quarter 4 – Finalised 2010-11 Quarter 1 – Finalised 2010-11 Quarter 2 – Finalised 2010-11 Quarter 3 – Finalised 2010-11 Quarter 4 - Finalised
Payroll	5	3.37	3.37	Finalised – Not Applicable
Bank Reconciliation	5	1.67	1.67	Work-in-Progress
Miscellaneous Income/Cash Collection	15	12.41	12.41	Finalised - Substantial
Business Rates	10	8.22	8.22	Finalised - Substantial
HOUSING SYSTEMS:				
Housing Rents	10	9.51	9.51	Finalised - Reasonable
HRA Business Plan	8	9.94	9.94	Finalised - Limited
Right to Buy	8	10.52	10.52	Finalised - Reasonable
Homelessness	10	10.6	10.6	Finalised - Substantial
ICT SYSTEMS:				
ICT – Procurement and Disposal	7	0	0	Include in 2011-12 plan
ICT - Internet and e-mail	7	0	0	Include in 2011-12 plan
ICT – Physical and Environment	7	0	0	Include in 2011-12 plan
HUMAN RESOURCES RELATED:				
Recruitment and CRB	10	0.17	0.17	Deleted from Plan due to very low levels of recruitment.
Absence Management	10	11.98	11.98	Finalised – Not Applicable
GOVERNANCE RELATED:				
Data Protection and FOI	10	14.39	14.39	Finalised - Reasonable
Members' Code of Conduct and Standards Arrangements	8	7.77	7.77	Finalised - Substantial
Performance Management	10	11.91	11.91	Finalised - Reasonable

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-11	Status and Assurance Level
Value for Money Strategy	10	11.31	11.31	Finalised - Reasonable
Business Continuity	10	10.74	10.74	Finalised - Limited
Corporate/CMT/Committee	30	48.74	48.74	Progress throughout 2010-11
CONTRACT RELATED:				
Compliance with Contract Standing Orders	15	0.18	0.18	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Contract Monitoring	10	9.36	9.36	Work-in-Progress
Receipt and Opening of Tenders	5	3.62	3.62	Finalised – Reasonable
Procurement	15	17.16	17.16	Finalised - Limited
SERVICE LEVEL:				
Employee Benefits-in-Kind	10	14.8	14.8	Finalised - Limited
Customer Services/Gateway	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Public Health Burials	8	8.04	8.04	Finalised - Substantial
Coast Protection	10	11.33	11.33	Work-in-Progress
Cemeteries	10	10.82	10.82	Finalised - Substantial
Planning and Building Control	20	23.9	23.9	Work-in-Progress
Museums	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Electoral Registration	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Equality and Diversity	7	0.37	0.37	Delete from plan to accommodate higher risk audit work
Disabled Facilities Grants	10	9.63	9.63	Finalised – Substantial
CCTV	10	11.35	11.35	Finalised - Substantial
OTHER				
Liaison with External Auditors	5	1.12	1.12	Finalised for 2010-11
Follow-up Work	15	28.45	28.45	Finalised for 2010-11
UNPLANNED WORK				

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-11	Status and Assurance Level
Procurement Panel	0	1.6	1.6	Work-in-Progress
Sheltered Accommodation Expenditure	0	3.82	3.82	Finalised – Not Applicable
Anti-Money Laundering Arrangements	0	1.16	1.16	Finalised – Reasonable
Housing Benefits Back-log Validation	0	0.58	0.58	Finalised – Not Applicable
EK Services – Validation of Tranche 1 Performance Indicators	0	6.19	6.19	Finalised – Not Applicable
FINALISATION OF 2009-10 AUDITS				
Child Protection	19.45	62.6	15.03	Finalised - Limited
Insurance			3.39	Finalised – Substantial
Choice Based Lettings			5.95	Finalised – Substantial
Debtors			5.39	Finalised - Reasonable
Housing Benefits – Fraud Investigation Arrangements			1.28	Finalised – Limited
Regeneration			1.97	Finalised – Reasonable/Limited
Main Accounting System			0.47	Finalised – Substantial
Housing Benefits - Overpayments			3.55	Finalised – Substantial
Write-offs			0.75	Finalised – Limited/Nil
Climate Change			0.33	Finalised – Reasonable
Performance Management			0.07	Finalised – Reasonable
Employee Health & Safety			12.35	Finalised - Reasonable
Leasehold Services			0.31	Finalised – Limited
Local Code of Corporate Governance			2.53	Finalised – Substantial
Payroll			0.41	Finalised – Reasonable
Risk Management			8.82	Finalised - Reasonable
Total	429.45	445.21	445.21	103.66 % complete as at 31st March 2011
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Customer Services	4	3.44	3.44	First Level Controller sign off charged to project



Dover District Council Balanced Scorecard

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>
	Quarter 4				
Chargeable as % of available days	88%	75%	Cost per Audit Day (Reported Annually)	£268	£300
Chargeable days as % of planned days	104%	100%			
Follow up Reviews;					
• Issued	31	-			
• Not yet due	6	-			
• Now overdue for Follow Up	4	0			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	42		Percentage of staff qualified to relevant technician level	76%	75%
Number of completed questionnaires received back;	8		Percentage of staff holding a relevant higher level qualification	32%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	24%	24%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner 	100%	100%	Number of days technical training per FTE	3.07	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	88%	90%	Percentage of staff meeting formal CPD requirements	32%	32%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	100%	100%	Number of business efficiency/ service Improvement recommendations introduced	38	-

REPORT OF THE DIRECTOR OF GOVERNANCE

RESPONSIBILITY – PORTFOLIO HOLDER FOR CORPORATE RESOURCES AND PERFORMANCE

NON-KEY DECISION

EXECUTIVE

CABINET – 6 JUNE 2011

GOVERNANCE COMMITTEE – 16 JUNE 2011

2010/11 ANNUAL GOVERNANCE ASSURANCE STATEMENT

Recommendation

1. *Cabinet are asked to accept the Annual Governance Assurance Statement, as recommended by the Corporate Management Team, and authorise the Leader to sign this statement.*
2. *Governance Committee is asked to accept the Annual Governance Assurance Statement alongside the 2010/11 Accounts.*

Contact Officer: David Randall, extension 2141.

Reasons why a decision is required

1. The Accounts and Audit Regulations (England) 2003, as amended by the Accounts and Audit (Amendment England) Regulations 2006, still require that the Council conducts at least annually, a review of the effectiveness of its System of Internal Control, and then publishes a statement on internal control within the Annual Governance Assurance Statement
2. The statement is to be signed by the Leader and the Chief Executive, having paid due regard to any matters raised by the Section 151 Officer and the Monitoring Officer.
3. The proposed 2010/11 Statement is attached. Corporate Management Team agreed to its acceptance in May 2011. The statement has been prepared taking into account the following information:
 - The service review work performed by Internal Audit during the year.
 - Internal Audit's review of Corporate Governance arrangements.
 - Assurance Statements produced by individual Directors of Service.
 - The information gathered as a result of risk assessment and management.
 - Reviews performed by other agencies and inspectorates.
4. The Action plan will be monitored during the year and progress reported to Governance Committee.

Background Papers

Accounts and Audit Regulations 2003
CIPFA Guidance on Corporate Governance

Resource Implications

No additional implications.

Comments from Finance

This Governance Statement will form part of the Draft Accounts for 2010/11

Communication Statement

Corporate Management Team has considered the Governance Assurance Statement.

Impact on Corporate Objectives and Corporate Risks

Effective governance is fundamental to the delivery of Corporate Objectives

Customer Access Review

Not required for this report.

Comments from Equalities Officer

No Equality Implications.

Attachments

2010/11 Governance Assurance Statement & Action Plan
2010/11 Basket of Measures

DAVID RANDALL

Director of Governance

The officer to whom reference should be made concerning inspection of the background papers is the Director of Governance, Dover District Council, White Cliffs Business Park, Dover, Kent CT16 3PJ.
Telephone: (01304) 821199, Extension 2141

DRAFT Annual Governance Statement

FOR THE PERIOD 1 APRIL 2010 TO 31 MARCH 2011

1.1 SCOPE OF RESPONSIBILITY

- 1.1.1 Dover District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Dover District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.1.2 In discharging this overall responsibility accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of Dover District Council's affairs, the stewardship of the resources at its disposal and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.1.3 To this end, Dover District Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at <http://www.dover.gov.uk/default.aspx?page=7734> or can be obtained from The Council Offices, White Cliffs Business Park, Dover, CT16 3PJ.
- 1.1.4 This statement explains how Dover District Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement of internal control.
- 1.1.5 Dover District Council has in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to Corporate Governance is both adequate and effective in practice. The Section 151 Officer, the Monitoring Officer and the Solicitor to the Council have been given responsibility for:
- Overseeing the implementation and monitoring the operation of the Local Code.
 - Reviewing the operation of the Local Code in practice.
 - Reporting annually to the Executive and the Governance Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.
- 1.1.6 In addition, Dover District Council's Director of Governance has been given the responsibility to review the arrangements independently and report annually to the Executive and the Governance Committee and to provide assurance on the adequacy and effectiveness of the Local Code and the extent of compliance with it.

1.1.7 In discharging this overall responsibility, Dover District Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Dover District Council's functions, and which include arrangements for the management of risk.

1.2 **THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

1.2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

1.2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Dover District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

1.2.3 The governance framework described below has been in place at Dover District Council for the year ended 31 March 2011 and up to the date of approval of the Council's accounts.

1.3 **CORPORATE MANAGEMENT TEAMS FINDINGS**

The Council's Corporate Management Team, comprising the Chief Executive and the Directors have reviewed the findings of the review into the Councils governance arrangements. They consider that the improvements during the year, and the significant governance issues to be addressed as recorded in this statement are complete and accurate and will enhance governance arrangements within the Council.

Based on work throughout the year, the Councils Internal Auditors have provided an Adequate Assurance on the Councils systems of internal control. Further details of this are included in the Annual Report by the Head of the East Kent Audit Partnership.

1.4 **THE GOVERNANCE FRAMEWORK**

1.4.1 The key elements of the systems and processes that comprise the authority's governance arrangements are summarised below:

Identifying and communicating our vision and outcomes for citizens and service users

A Corporate Plan was in existence throughout the year, with Members agreeing the revised version in February 2010. The Interim Corporate Plan is available on the Council's web site. This document sets out the Council's objectives for the period 2010 to 2014. A refresh of the Corporate plan will be

undertaken following May 2011 elections

Reviewing our vision and its implications for our governance arrangements

During this year, progress towards the achievement of the objectives has been monitored through the Performance Management Framework, the Performance Report, the Project Review Team, the Delivering Effective Services Project Team and through other internal review mechanisms. In the year under review processes and controls were appropriately applied to enable a detailed review of the Council's priorities, to take account of direction received from the new Government, and to achieve significant savings in service delivery.

Established clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation

Communication and Consultation strategies are in place, together with an Equality and Diversity Scheme helping to ensure that all groups in our community have a voice, can be heard and are suitably consulted.

Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

Dover District Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Executive is responsible for most decisions. The Executive is made up of the Leader and a Cabinet, who are appointed by the Leader. Major decisions required are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Executive wishes to take outside the budget or policy framework must be referred to Council as a whole to decide. There are two overview and scrutiny committees who support and monitor the work of the Executive. A "call-in" procedure allows Scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The standards of conduct and personal behaviour expected of members and officers of Dover District Council, its partners and the community are defined and communicated through codes of conduct and protocols. These include:

- Members' code of conduct
- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- A fraud and corruption policy
- Member/officer protocols
- A Standards Committee with five independent members

Whistle-blowing and receiving and investigating complaints from the public

A confidential reporting hotline is in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.

The Council has an effective formal and informal complaints procedure. We have received no findings against Dover District Council from the Local Government Ombudsman.

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

The Director of Governance and Solicitor to the Council are responsible for ensuring that the Constitution is subject to annual review. The last review was adopted by Council in April 2011. The significant changes are the alignment of new structures, delegations and new executive arrangements.

Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Dover District Council has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution, which is published on the Council's website.

Other documentation includes corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, Human Rights, and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy, or new documentation following new legislation, where appropriate arranging training for all or key members of staff.

In 2002 as part of the original Local Code of Corporate Governance, Dover District Council adopted a Risk Management Strategy. This document shows the role both Members and Officers have in the identification and minimisation of risk. Key risks are recorded in a Corporate Risk Register and are then subject to periodic review. This strategy was reviewed as part of the 2007 update and following the Delivering Effective Services Review, risk assessments were given a bronze status meaning that detailed risk assessments will be undertaken on major corporate activities and projects at key deliverable stages.

As part of the year-end process a Service Assurance Statement has been provided by all Directors, detailing their assessment of their services. They are required to give assurance that risks have been identified, that sound business arrangements operate in their service areas, and that the service is

subject to monitoring and review in order to assess performance.

The Solicitor to the Council has also provided his opinion on the Council's compliance with its legal obligations. He is satisfied that the Council is complying with relevant legal obligations.

Measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources

Dover District Council through its budgetary monitoring and control processes ensures that financial resources were being used to their best advantage, via monthly management reporting to the Corporate Management Team, Cabinet and all other Members.

Financial planning is underpinned by service planning, with increased expenditure in any service area being justified to the Corporate Management Team, and where necessary approved by the Executive. Key to the service planning process is a requirement to demonstrate planning for continuous improvement over several financial years. Corporate Management Team is tasked with prioritising resources to ensure that the objectives within Corporate Plan are supported by the individual service plans, and that improvements are in line with corporate objectives.

Corporate and key service objectives are carefully monitored to ensure that performance targets and indicators are being achieved.

Economic, effective and efficient use of resources is subject to review through the work of both Internal and External Audit, through benchmarking and the use of comparative techniques with other service providers, and through independent external review.

Financial Management

Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Section 151 Officer. The systems of internal financial control provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council.

In particular, the process in 2010/11 included:

- The setting of annual budgets;
- Monitoring of actual income and expenditure against the annual budget;
- An ongoing review of the annual budget;
- Setting of financial and performance targets, including the introduction

- Monthly reporting of the Council's financial position to Members;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.

Effectiveness of Internal Audit

The Internal Audit Team reported to the Director of Governance to 31/3/11 and to the Director of Finance from 1/4/11, and operates under a Charter, which defines its relationship with the Council's officers, and the Governance Committee. The main responsibility of the Internal Audit Team is to provide assurance and advice on the internal control system of the Council to the Corporate Management Team and Members. Internal Audit reviews and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement. It also supports management in developing systems, providing advice on matters pertaining to risk and control. The controls created by management are evaluated to ensure:

- Council objectives are being achieved;
- Economic and efficient use of resources;
- Compliance with policies, procedures, laws and regulations;
- The safeguarding of Council assets; and
- The integrity and reliability of information and data.

As part of the wider annual review of the governance arrangements and in particular the System of Internal Control, the Council is required to undertake an annual review of the effectiveness of the system of internal audit.

This review was undertaken by the Director of Governance (Monitoring Officer) and Director of Finance (Section 151 Officer). The review concluded that an effective system of internal audit is provided through the East Kent Audit Partnership and the opinion of the Head of the Audit Partnership in her annual report can be relied upon.

A Governance (Audit) Committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

It is a responsibility of the Governance Committee (as detailed in the Constitution) to monitor the work of Internal Audit and to ensure that any actions agreed are implemented. The review also considered the effectiveness of the Council's Governance (Audit) Committee. The review concluded that the Governance (Audit) Committee was effective and added value to the internal control system. Its terms of reference are outlined in the Council's Constitution.

Performance and Risk Management

The Council's Performance monitoring and reporting to Members was maintained during the year, but without the use of challenging in-year targets, as the Delivering Effective Services Review was ongoing throughout 2010/11, which was a major review of the Council's key service priorities and identified significant efficiency savings.

The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

A resourced training and development plan is in place for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

Incorporating good governance arrangements in respect of partnerships and other group working

A partnership evaluation criteria has been established to help ensure that all key governance criteria are incorporated into new and existing partnerships.

The ethical conduct of members and officers of this Council

The Standards Committee and the Head of EK Human Resources have provided a positive opinion on the Council's compliance with its Ten Principles of Good Conduct. The Independent Chairman of the Standards Committee has again produced his annual report which was received and adopted by Council.

1.5 **REVIEW OF EFFECTIVENESS**

1.5.1 Dover District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by:

- The work of the Internal Auditors and the Head of the Audit Partnership's Annual Report.
- The work of Directors and managers within Dover District Council who have responsibility for the development and maintenance of the governance environment.
- The external auditors in their Annual Audit and Inspection Letter and other reports, including the CPA Use of Resources and Direction of Travel Statements.

1.5.2 The following process have been applied in maintaining and reviewing the effectiveness of the governance framework:

Council

At a corporate level the Corporate Plan, Service Plans and the Constitution have all been subject to review. Performance is reported against our key priorities on a quarterly basis and outlines our priorities and targets for the forthcoming year. The Council has also adopted the revised model code of conduct for members.

All key services have been prioritised and agreed by members as either gold, silver or bronze status. This depicts the service levels to be maintained during 2011/12

Cabinet and Scrutiny (Policy and Performance) Committee

The Cabinet and Scrutiny (Policy and Performance) Committee have responsibility for monitoring the achievement of key priorities and setting robust and challenging targets. The new stronger Leader model supports this process, together with the Annual Report from the Chairmen of the Scrutiny Committees, received and approved by Council.

Governance Committee

The Governance Committee receive quarterly updates from the Head of the Audit Partnership on the assurance which can be placed against various systems and processes during the year, along with an annual assessment at the year end.

The Governance Committee have reviewed reports presented to it by the Head of the Audit Partnership in connection with the review of internal control. The Committee keeps a check on those areas that have not achieved a satisfactory level of assurance. Additionally, this committee receives the Council's annual Constitutional Review, for recommendation on to Council and ensures the effectiveness of the Council's risk management arrangements. The Annual Report of the Chairman of the Governance Committee was received and approved by Council.

Standards Committee

The Standards Committee receives a quarterly report on progress of formal complaints against the Council, 100 formal complaints were received during 2010/11 against 116 in 2009/10. During 2010/11, the Initial Assessment Sub Committee of the Standards Committee considered 20 complaints against district, town and parish councillors, against 36 complaints in 2009/10. There were no findings of breaches of the code of conduct by members of Dover District Council. An Annual Report of the work of the Standards Committee was presented to the Annual Council Meeting in May 2010. It gave a positive opinion on the ethical conduct of the members of this Council.

Internal Audit

Based on the work undertaken by them during the year, the Head of the Audit Partnership consider that there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have very good level of assurance in respect of all of its main financial systems and the majority of its Governance arrangements. Many of the main financial systems, which feed into the production of the Council's Financial Statements, have achieved a Substantial assurance level following audit reviews. The Council can therefore be very assured in these areas. This position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have

been raised.

Positive steps are being taken in all those areas where a Limited Assurance had been given, in order to raise that assurance level to Reasonable or Substantial. Based on an overview of the work undertaken throughout the year, in conjunction with previous years' work, current risk assessments, and the Heads of Service Assurance Statements the Head of the Audit Partnership places an Adequate Assurance on the systems of internal control in place. (Definitions of assurance levels follow the signatures at the end of this statement).

External Agencies

No external service level inspections this year

1.6 **IMPROVEMENTS DURING THE YEAR**

1.6.1 In the period covered by this Annual Governance Assurance Statement, improvements have been made to the Council's arrangements in respect of the following areas, which had been previously identified as areas in which we could improve:

High Priority

- A number of efficiency projects were identified as part of a Delivering Effective Services initiative to streamline services and improve value for money.
- A Corporate restructuring exercise was undertaken which significantly reviewed service priorities and provision. This was undertaken during 2010/11 was implemented from 4th April 2011.
- Plans were developed for East Kent Shared Services to commence in February 2011.
- East Kent housing was established on 1st April 2011 to combine the landlord services for the four East Kent Authorities.

Medium Priority

- The Council undertook its annual review of the Constitution in the period leading up to March 2011 in an effort to improve the governance arrangements of the Council.

Low Priority

- Terms and Conditions and codes of conduct were reviewed to ensure commonality with key East Kent Partners
- Work began on reinforcing data retention policies

1.7 **SIGNIFICANT GOVERNANCE ISSUES**

1.7.1 On the basis of the Corporate Governance Position Statements compiled by the Monitoring Officer following a review of the Council's processes, and reviewed by the Council's Corporate Management Team, and the Statements produced by Directors, we are satisfied that, except for the matters listed

1.7.2 Areas of Non Compliance:

High Priority

- The provisions within the Performance Management Framework encourage the continual review, measurement and monitoring of services. We need to develop this further to ensure that the Council concentrates its efforts on the functions that are key to the health of the organisation and seeks to use this tool to identify service areas for improvement.
- The Council needs to continue to build on the enhanced arrangements and revised organisational structure introduced during the year to deliver budgetary savings and monitor of business risk in order to ensure that these lead to efficiency improvements in services.

Medium Priority

- The Council has not always reported back to groups/partners on how their comments have affected the Council's plans. We will improve communications with the community to inform everyone, in a timely manner, of the changes that we will instigate as a result of their comments.
- We need to investigate ways of publishing financial information in a format that the public generally can more easily understand, and ensure that this is made available specifically to key stakeholders and partners.

Low Priority

- Additional training will be offered to Members and Officers including, specifically, topics relating to improving knowledge on the way the Council operates, and training aimed at explaining and strengthening governance arrangements.

1.7.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signatures: _____ Date: _____
Leader of the Council

_____ Date: _____
Chief Executive

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
CP1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area	Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users	Develop and promote the authority's purpose and vision	Used as a basis for: - corporate and service planning - shaping the community strategy - local area or performance agreements	Risk of services deviating from Corporate Plan controlled via management / CMT review of proposed changes to services. Interim Plan confirms long term objectives, but takes account of economic position.	Corporate Plan 2008-2020 sets out key objectives. Service plans etc include explanations of how services support those objectives. Interim Plan for 2010/11-13/14 agreed via Cabinet / Scrutiny Feb & March 2010.	None		Corporate Plan 2008-2020 sets out key objectives. Service plans etc include explanations of how services support those objectives. Interim Plan for 2010/11-13/14 agreed via Cabinet / Scrutiny Feb & March 2010.	A new Corporate plan to be developed following May 2011 elections	Leadership Support Manager	31/03/2012
		Review on a regular basis the authority's vision for the local area and its implications for the authority's governance arrangements	Governance code	Suitability of governance arrangements in delivering the Councils aims subject to continual review	Governance Code reviewed November 2009 by Governance Committee	None additional to that of continual review		Governance Code reviewed December 2010 by Governance Committee	Governance Code to be reviewed December 2011 by Governance Committee	Director of Governance	31/12/2011
		Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	Partnership protocol Governance code	Work of Partnerships may not be complimentary to the Corporate aims	Partnership database updated, review of work of Partnerships commenced	Review of all partnerships to be completed	ongoing - as required	Partnership working in place across the 4 east Kent authorities. Governance arrangements vis joint committee	Monitor the new EKS and EKH partnership performance to ensure that service levels are at least maintained and VFM is improved	Corporate Support Manager	ongoing - as required
		Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance	Annual financial statements Annual report and performance plan	Risk of lack of openness / transparency /accountability through non-production of annual report minimised by publication of material on web in other formats, e.g. Performance Reports	2008/09 accounts published prior & subsequent to signing - off by the Audit Commission. Annual report no longer legal requirement, and information not produced in this format for 2008/9 performance due to resource limitations.	None		Financial accounts available on councils website. Link to one-place website re performance from DDC site.	None		
	Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning	Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	This information is reflected in the: - corporate and service plans - annual performance report - medium term financial strategy - annual budget in order to ensure improvement	Risks minimised via performance monitoring	Service quality subject to continual monitoring, however improvements may be restricted due to financial pressures	None additional to that of continual review		Review of Corporate services undertaken during the year leading to major organisational I restructure	Delivering effective services efficiency projects action plan and monitoring arrangements	DES Team	Throughout 2011/12
		Put in place effective arrangements to identify and deal with failure in service delivery	Complaints procedure	Risk of poor / inadequate or failing services monitored via complaints which may ultimately be investigated by Ombudsman.	Complaints procedure publicised in offices/ via Internet. Escalation process operates from service management to Complaints officer and ultimately Ombudsman	None additional to that of continual review		Complaints process available to public via the Councils website.	None additional to that of continual review		
	Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money	Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions	The results are reflected in authority's performance plans and in reviewing the work of the authority.	Failure to review how priorities can be resources may result in poor VFM to the taxpayer.	Financial constraints have impacted on service levels, and in order to focus on priorities, a major corporate review is proposed.	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/11	end of 2010/11	Corporate restructuring exercise reviewing service provision undertaken with commencement date 4April 2011. A number of efficiency projects have been identified which will be implemented during the year 2011/12	Implementation throughout 2011/12	Corporate Support Manager and DES team	31/03/2012
		Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use	Evidenced from chief financial officer's compliance statement	The work of the Finance Team ensures that financial information is available to support decision making	Positive statement received from Chief Finance Officer	None		See S151 Officers statement	None		
		Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary	Evidenced from chief financial officers compliance statement	The work of the Finance Team ensures that the financial position is monitored & action taken as necessary	Positive statement received from Chief Finance Officer	None		See S151 Officers statement	None		
		Ensure compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code	Evidenced from chief financial officers compliance statement	Financial risk is reduced by complying with CIPFA guidance	Positive statement received from Chief Finance Officer	None		See S151 Officers statement	None		
CP2: Members and officers working together to achieve a common purpose with clearly defined functions and roles	Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function	Set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice	Constitution Record of decisions and supporting materials. Ensure that the CFO reports directly to the chief executive and is a member of the leadership team with a status at least equivalent to other members.	Clarity of roles ensures clear lines of management	Roles & responsibilities are documented. Members job descriptions agreed & contained in the Constitution	None		Roles & responsibilities are documented. Members job descriptions agreed & contained in the Constitution	None		

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
		Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers and of the leadership team and its members individually	Constitution Record of decisions and supporting materials. Ensure that the CFO reports directly to the chief executive and is a member of the leadership team with a status at least equivalent to other members.	Clarity of roles ensures clear lines of management	Roles & responsibilities are documented	None additional to that of continual review		Roles & responsibilities are documented	None additional to that of continual review		
	Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of authority members and officers are carried out to a high standard	Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required	Constitution	Delegations kept under constant review to ensure currency	Delegations kept under constant review to ensure currency	None additional to that of continual review		Delegations kept under constant review to ensure currency	None additional to that of continual review		
		Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management	Conditions of employment Scheme of delegation Statutory provisions Job descriptions/specification Performance management system	CE in post & has appropriate responsibility	CE in post & has appropriate responsibility	None		CE in post & has appropriate responsibility	None		
		Ensure that the authority's governance arrangements allow the CFO direct access to the CEO and to other leadership team members	Evidenced from chief financial officers compliance statement	Risk of poor financial management mitigated via role of CFO	Positive statement received from Chief Finance Officer	None		See S151 Officers statement	None		
		Develop protocols to ensure that the leader and chief executive (or equivalent) negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained	New chief executive and leader pairing consider how best to establish and maintain effective communication	Change in either position could impact on the running of the Councils business	Roles & responsibilities are documented & understood	None		Roles & responsibilities are documented & understood	None		
		Make a senior officer (the S151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	Appoint a professionally qualified CFO whose core responsibilities include those set out in the Statement on the Role of the CFO in Local Government and ensure that they are properly understood throughout the authority. Ensure that the CFO : • leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively, has a line of professional accountability for finance staff throughout the organisation. Ensure that budget calculations are robust and reserves adequate, in line with CIPFA's guidance. Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should be accessible to all	Internal Audit function operates as independent check to ensure systems & controls operate as intended throughout the year.	Positive statement received from Chief Finance Officer.	None		See S151 Officers statement	None		
		Make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	Monitoring officer provisions Statutory provisions Job description/specification	Constitution updated as necessary to ensure responsibility allocated appropriately	Positive statement received from the Monitoring Officer & all Departmental Heads	None		See Monitoring Officer statement	None		
	Ensuring relationships between the authority and the public are clear so that each knows what to expect of the other	Develop protocols to ensure effective communication between members and officers in their respective roles	Member / officer protocol	Lack of understanding of respective roles could result in poor management of the authority	No issues with operation of protocol identified	None		Part of constitution	None		
		Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process, including an effective remuneration panel (if applicable)	Pay and conditions policies and practices	DDC pay & conditions differ from those of our East Kent Partners. Harmonisation is appropriate given Joint Working	Remuneration panel operates for Members pay & conditions. Job Evaluation process undertaken throughout 2009/10 in respect of officer pay.	Inter-authority agreement reached, HR to adopt Action Plan to ensure pay & conditions harmonised & do not hinder Joint Working projects	Dec-10	East Kent Joint independent remuneration panel managed by DDC. Members allowance scheme reviewed.	Implement members allowance scheme actions	Democratic Services Manager	Mar-12
		Ensure that effective mechanisms exist to monitor service delivery	Performance management system	falling performance can be identified, corrective action taken & subsequently monitored to ensure improvement	Performance is reported & reviewed on a quarterly basis	None additional to that of continual review		Performance Management reporting will be reviewed in the year	None additional to that of continual review	Corporate Support Manager	

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
		Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	Vision Strategy Corporate plans Performance plan.	Failure to consult & Publicise on the vision could result in mis-directed services	The Corporate Plan is subject to review, and progress towards achievement of its aims is monitored via the Performance Report. Neighbourhood Forums provide the opportunity for community involvement, and the operation of these has been reviewed to ensure they continue to meet the need of both the Council and the Community.	Implement recommendations from Cabinet report 1 March 2010 to ensure Neighbourhood Forums continue to play a valuable role in the direction of the Councils work	throughout 2010/11	Neighbourhood forums to continue throughout 2011/12	Te evolve the forums to include health representatives.	Leadership Support Manager	31/03/2012
			Establish a medium term business and financial planning process to deliver strategic objectives including: A medium term financial strategy to ensure sustainable finances. A robust annual budget process that ensures financial balance. A monitoring process that enables this to be delivered. • Ensure that these are subject to regular review to confirm the continuing relevance of assumptions used	Risk that Members do not receive sufficient information to properly understand financial pressures on the Authority.	MTFP reported to Members in Feb / March 2010. Scrutiny review requested additional reporting throughout the year.	Implement recommendations from Scrutiny to enhance the information received by Members	throughout 2010/11	See S151 Officers statement	None additional to that of continual review	Director of Finance & ICT	throughout 2010/11
		When working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority	Protocols for partnership working. For each partnership there is: - a clear statement of the partnership principles and objectives - clarity of each partner's role within the partnership - definition of roles of partnership board members - line management responsibilities for staff who support the partnership - a statement of funding sources for joint projects and clear accountability for proper financial administration - a protocol for dispute resolution within the partnership	Governance arrangements over key partnerships are agreed to prevent failure of achievement for the aims of the partners	Operation of the East Kent Joint Committee for much of the Councils service based Partnership working is included in Part 8 of the Constitution.	None additional to that of continual review		Operation of the East Kent Joint Committee for much of the Councils service based Partnership working is included in Part 8 of the Constitution.	None additional to that of continual review	Director of Governance	
		When working in partnership: - ensure that there is clarity about the legal status of the partnership - ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions	Protocols for partnership working. For each partnership there is: - a clear statement of the partnership principles and objectives - clarity of each partner's role within the partnership - definition of roles of partnership board members - line management responsibilities for staff who support the partnership - a statement of funding sources for joint projects and clear accountability for proper financial administration - a protocol for dispute resolution within the partnership	Differing views on the status / work of a partnership could divert resources from other areas.	The Councils Partnerships were subject to high level review during 2009/10. Work with a few partnerships should be reviewed in greater depth to ensure their aims continue to support / match those of the Council	Ensure that sufficient controls are put in place by new partnerships to protect the Councils interests.	Throughout 2010/11	The partnership work will focus on the new EKS and EKH shared service arrangements as well as the existing EKHRP to ensure that the necessary data is received in a timely and accurate manner to enable DDC officers and Members to monitor service levels	Regular reporting on EKS, EKHand EKHRP performance	Corporate Support Manager	Throughout 2011/12
CP3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	Codes of Conduct.	Failure to apply codes of conduct may lead to the authority being discredited	All members & officers are covered by a Code of Conduct. Processes are in place to deal with complaints about behaviour for both Members & Officers	None		All members & officers are covered by a Code of Conduct. Processes are in place to deal with complaints about behaviour for both Members & Officers	None		
		Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols	Members/officers' code of conduct performance management system Performance appraisal Complaints procedures Anti-fraud and -corruption policy Member/officer protocols	Failure to apply codes of conduct may lead to the authority being discredited	Codes / policies are made available vis Intranet / Snapshot, Lan Consent	None		Codes / policies are made available vis Intranet / Snapshot, Lan Consent	None		

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
		Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice	Standing orders Codes of conduct Financial regulations	Failure to apply codes of conduct may lead to the authority being discredited	Codes / policies are made available via Intranet / Snapshot, Lan Consent	None		Codes / policies are made available via Intranet / Snapshot, Lan Consent	None		
	Ensuring that organisational values are put into practice and are effective	Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners	Codes of conduct, corporate training	Risk of organisational values not being maintained monitored through training & performance monitoring	Leader as Coach, management capabilities, competency framework introduced as on-going support to develop leadership & promote corporate values	None		Leader as Coach, management capabilities, competency framework introduced as on-going support to develop leadership & promote corporate values	None		
		Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	Codes of conduct	Failure to monitor compliance with standards may lead to a deterioration of values on which services are based	Annual report to Standards committee produced in May provides opportunity to monitor Members standards	Codes of Conduct to be reviewed to ensure commonality with those of key partners	Dec-10	See Head of EKHR statement		Director of Governance	
		Develop and maintain an effective standards committee	Terms of reference Regular reporting to the Council	An ineffective committee will fail to promote high standards of public life	Terms of reference detailed in the Constitution. Annual report to Council. Officers & Members attend the Annual Standards Board conference	None		Terms of reference detailed in the Constitution. Annual report to Council. Officers & Members attend the Annual Standards Board conference	None		
		Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority	Decision-making practices - Article 13 of Constitution for Decision making process	The probability of inconsistent decisions is minimised via targeted training of members	Report template includes provision for consultation, decisions published on the website. Specific training compulsory for those members on quasi-judicial committees.	None		Report template includes provision for consultation, decisions published on the website. Specific training compulsory for those members on quasi-judicial committees.	None		
		In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively	Protocols for partnership working, Contract procedure rules	Failure to monitor compliance with standards may lead to a deterioration of values on which services are based	See Part 8 of the Constitution for East Kent Authority arrangements, and Partnership database for outline arrangements for others	Use of Partnership toolkit in assessing merit of partnerships & ensuing control processes		Monitor the new EKS and EKH partnership performance to ensure that service levels are at least maintained and VFM is improved		Corporate Support Manager	
CP4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	Being rigorous and transparent about how decisions – are taken and listening and acting on the outcome of constructive scrutiny	Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible	Scrutiny is supported by robust evidence and data analysis	Challenge via Scrutiny ensures that decisions are adequately considered	Two scrutiny committees exist, each with their own remit. Work in the year has been more internally focused.	None		Two scrutiny committees exist, each with their own remit. Work in the year has been more internally focused. In addition East Kent joint scrutiny committee looking at shared service issues. - Being managed by DDC 2011/12	Continual review.	Democratic services manager	
		Maintain and resource an effective internal audit function	Positive results from annual review of effectiveness, Statements of S151 Officer & monitoring Officer	Opportunities for verifying & improving internal control may be missed	Effectiveness included as part of the Annual Report of the Head of Internal Audit to Governance Committee	None		See S151 & Monitoring Officers statement			
		Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	Decision-making protocols, record of decisions and supporting materials, including urgency process	Information relied on in reaching decisions is available to public scrutiny and helps promote openness	Key decisions are recorded and open to public scrutiny. Report format is standard to ensure consistency with type of information required in order to make decisions.	None		A detailed constitutional review was held during 2010/11 particularly with regard to officer delegations. Agendas and minutes are available via the Council's website.	Annual review. Changes in response to legislation during year.		Mar-12
		Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice	Members' code of conduct		Key controls over systems and arrangements are in place to ensure Council assets are safeguarded from error or irregularity			Key controls over systems and arrangements are in place to ensure Council assets are safeguarded from error or irregularity		CMT	Throughout 2011/12
		Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee	Terms of reference Membership Training for committee members	Risk of improper determination of decisions mitigated by openness	Members declarations are subject to public scrutiny via the Internet	None		Members declarations are subject to public scrutiny via the Internet		Democratic services manager	
		Ensure that the authority's governance arrangements allow the CFO direct access to the audit committee and external audit	S151 Officers statement,	Lack of relevant knowledge could impact on the effectiveness of the Committee	Members on Governance Committee, including substitutes, have to undertake specific training.	None		S151 Officers statement,			
		Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints	Complaints procedure	Risk of loss / fraud mitigated by openness	The S151 attends Governance Committee and has regular meetings with the Audit Commission	None		See S151 Officers statement			

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
	Having good-quality information, advice and support to – ensure that services are delivered effectively and are what the community wants/needs	Ensure that those making decisions whether for the authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical and financial issues and their implications. Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority	Members' induction scheme Training for committee chairs. Governance arrangements. Budget monitoring arrangements	Risk of poor / inadequate or failing services monitored via complaints which may ultimately be investigated by Ombudsman.	Complaints procedure publicised in offices/ via Internet. Escalation process operates from service management to Complaints officer and ultimately Ombudsman	None		Complaints procedure publicised in offices/ via Internet. Escalation process operates from service management to Complaints officer and ultimately Ombudsman	None	Director of Governance	
		Ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately. Ensure that advice is provided on the levels of reserves and balances in line with good practice guidance.	Record of decision making and supporting materials, including urgency procedures	Risk of improper determination of decisions mitigated by openness	Report templates encourage the presentation of all relevant facts & options, including technical opinion & financial implications	None		Report templates encourage the presentation of all relevant facts & options, including technical opinion & financial implications	None	Director of Governance	
		Ensure that information held by the Council is secure, and retained in accordance with Legal provisions	ICT policies, Coco	Risk of improper determination of decisions mitigated by openness	Reports cater for legal & financial implications of decisions to be drawn to Members attention.	None		Reports cater for legal & financial implications of decisions to be drawn to Members attention.	None	Director of Governance	
	Ensuring that an effective risk management system is – in place	Ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their jobs	Risk management protocol Financial standards and regulations. Effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorization and approval processes	Unchecked growth in ICT files could result in Data Protection issues, problems with answering FOI requests and unnecessary cost in respect of storage	Government Code of Connection implemented, strengthening ICT controls. However, growth in computer capacity needed suggests compliance with Data Retention Policies may not be strictly adhered to across the Council.	Compliance with Data Retention Policies needs enforcing for electronic records as well as paper.	Throughout 2010/11	Document retention reminder to all staff will be sent out to stress the importance of compliance and the impacts on FOI and DP	A reminder to all staff about the importance of compliance with document retention will be sent early in 2011/12 and will be followed up throughout the year	Corporate Support Manager	Throughout 2011/12
		Ensure that effective arrangements for whistle-blowing are in place to which officers, staff and all those contracting with or appointed by the authority have access	Whistle-blowing policy	Internal control process subject to management / audit check	Risk Management policy presented to Governance committee March 2009, and reviewed annually as part of the Local Code of Governance Review. Controls subject to Internal Audit review.	None additional to that of continual review			None additional to that of continual review	Director of Governance	Throughout 2011/12
	Using their legal powers to the full benefit of the citizens and communities in their area	Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities	Constitution Monitoring officer provisions Statutory provision	Internal abuse discouraged through the encouragement of internal reporting	Whistle blowing policy promoted via Lan Consent & brought to the attention of all DDC ICT users	External publicity on the whistle-blowing policy to be refreshed.	Dec-10	Whistle blowing policy promoted via Lan Consent & brought to the attention of all DDC ICT users	None additional to that of continual review	Director of Governance	Throughout 2011/12
		Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on authorities by public law	Constitution Monitoring officer provisions Statutory provision	Legal team available to offer advice as required	Legal advice issued to staff as required. Legal agreement sought as part of the decision making process	None		Legal advice issued to staff as required.	None additional to that of continual review	Director of Governance	Throughout 2011/12
		Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into their procedures and decision-making processes	Monitoring officer provisions Job description/specification Statutory provision	Legal team available to offer advice as required	No examples of unlawful action known	None		No examples of unlawful action known	None additional to that of continual review	Director of Governance	Throughout 2011/12
CPS: Developing the capacity and capability of members and officers to be effective	Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles	Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	Training and development plan Induction programme Update courses/information	Legal team available to offer advice as required	No examples of unlawful action known	None		Induction programme and on-going training in addition to the use of Iysoft.	None	Democratic Services Manager	Throughout 2011/12

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
		Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority	Job description / personal specifications membership of top management team. Ensure the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non financial areas of their role. Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised. Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.	Risk of poor performance through lack of knowledge /understanding	Training plan for members devised by Democratic Services. Officers provided with training via PPR process / career development .	The HR partnership presents an opportunity for more inter-authority training to be considered & offered	throughout 2010/11	Job profiles for members in place and in the Council's Constitution.	None	Democratic services manager	Throughout 2011/12
	Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group	Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively	Training development plan. Embed financial competencies in person specifications and appraisals. Ensure that councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.	Risk of poor performance through lack of knowledge /understanding	See statements by statutory Officers	None		See statements by statutory Officers		Democratic Services Manager	
		Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	Training and development plan reflect requirements of a modern Councillor including: - the ability to scrutinise and challenge - the ability to recognise when outside advice is required - advice on how to act as an ambassador for the community - leadership and influencing skills	Risk of poor performance through lack of knowledge /understanding	Training provided to all members of Governance Committee & substitutes to enable them to perform their duties. Other training poorly attended by members during the year	Personal Development plans for members to be introduced	Throughout 2010/11	Job profiles introduced with training. Scrutiny reviews the quality of executive decisions.		Democratic Services Manager	Throughout 2011/12
		Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might, for example, aim to address any training or development needs	Performance management system	Risk of poor performance through lack of knowledge /understanding	Expert advice bought in re review of accounts to assist governance process	Personal Development plans for members to be introduced	Throughout 2010/11	Job profiles introduced with training. Scrutiny reviews the quality of executive decisions.		Democratic Services Manager	Throughout 2011/12
	Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal	Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority	Strategic partnership framework Stakeholders' forums' terms of reference Area forums' roles and responsibilities Residents' panel structure, Local democracy day	Ensuring officers & members have the appropriate skills to undertake work expected of them	Members job descriptions agreed in year. Corporate training such as Leader as Coach assisting staff development	Personal Development plans for members to be introduced	Throughout 2010/11	Prospective Councillor events held. Election briefings held.		Democratic Services Manager	Throughout 2011/12
		Ensure that career structures are in place for members and officers to encourage participation and development	Succession planning, PPR process, Leader as Coach programme etc	Failure to attract resources leading to stagnation of services	Members job descriptions agreed in year. Corporate training such as Leader as Coach assisting staff development	Revised approach to running of Neighbourhood Forums agreed & to be implemented	Throughout 2010/11	Neighbourhood forums to continue throughout 2011/12	Te evolve the forums to include health representatives.	Leadership Support Manager	31/03/2012
	Making best use of human resources by taking an active and planned approach to meet responsibility to staff	Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making	Constitution, staff consultative procedures, HR procedures	Failure to attract resources leading to stagnation of services	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/10	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/11	Throughout 2010/11			CMT	Throughout 2011/12
		Completion of the Job Evaluation process	Job evaluation project timetable		Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/10	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/11	Throughout 2010/11			CMT	Throughout 2011/12
CP6: Engaging with local people and other stakeholders to ensure robust public accountability	Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including	Make clear to themselves, all staff and the community to whom they are accountable and for what	Arrangements surrounding Community strategy / LSP / Kent Local Area Agreement 2 / Compact / Scrutiny terms of reference	Assurance that posts are graded on the same basis	Process completed by the end of March 2010	None		The public speak at scrutiny and may submit items. Regular meetings with local stakeholders.		Democratic services manager	

Core Principles	Supporting Principles	DDC Requirement	Evidence Required to Satisfy	Associated Risks and Controls	DDC Status at 31 March 2010	Actions 2010-11	Target date	Status at 31 March 2011	Actions to be taken 2011/12	Officer Responsible	Target date
	partnerships, and develops constructive accountability relationships	Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required	Arrangements surrounding Community strategy / LSP / Kent Local Area Agreement 2 / Compact / Scrutiny terms of reference	Failure to attract resources leading to stagnation of services	Review of the operation of Neighbourhood Forums undertaken to ensure capacity exists to manage these	Revised approach to running of Neighbourhood Forums agreed & to be implemented	throughout 2010/11	Neighbourhood forums to continue throughout 2011/12	Te evolve the forums to include health representatives.	Leadership Support Manager	31/03/2012
		Produce an annual report on the activity of the scrutiny function	Annual report	Where DDC has the influence, ensure that community plans are co-ordinated and attempt to achieve complementary aims	Role of LSP agreed, action plan in process of agreement by various parties	EK LSP action plan to be agreed & implemented	throughout 2010/11	EKLSP disbanded	None	Leadership Support Manager	None
	Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning	Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements and ensure that they operate effectively	Community strategy Processes for dealing with competing demands within the community	Annual report produced in May	Annual report produced in May	Ensure that suggestions from Neighbourhood Forums are considered by members	throughout 2010/11	Neighbourhood forums to continue throughout 2011/12	Te evolve the forums to include health representatives.	Leadership Support Manager	31/03/2012
		Hold meetings in public unless there are good reasons for confidentiality	Community strategy Processes for dealing with competing demands within the community	Poor consultaion results in missed opportunities	Communication strategy reviewed Feb / Mar 2010 to ensure relevance into 2010/11. Corporate approach to consultation exists	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/11, to include consultaion stage	throughout 2010/11		Continuing throughout 2011/12	CMT	Throughout 2011/12
		Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	Community strategy Processes for dealing with competing demands within the community	Transparancy in the decision making process is promoted	Meetings held in public, and Public Speaking allowed at some committees.	Ensure that suggestions from Neighbourhood Forums are considered by members	throughout 2010/11	Cabinet members attend neighbourhood forums	Ensure that actions from Neighbourhood forums are considered by members	Leadership Support Manager	Throughout 2011/12
		Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result	Partnership framework Communication strategy	CARs help to ensure equality of services	Customer Access Reviews undertaken as services are reviewed / implemented	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/11, to include consultation stage	throughout 2010/11	New service structure developed and Customer Access Reviews to be done where relevant.	Continuing throughout 2011/12	CMT	Throughout 2011/12
		On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	Annual report Annual financial statements Corporate plan Annual business plan	Ensuring the community heard by confirming changes in services and the reasons for those changes	Communication strategy reviewed Feb / Mar 2010 to ensure relevance into 2010/11	Review of organisation to take through the Employment Stability / Priority Service proposals throughout 2010/11, to include consultation stage. Feedback to the community will be necessary during the process	throughout 2010/11			CMT	Throughout 2011/12
		Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	Constitution, FOI arrangements	Public is informed of the Councils results in a timely manner	Corporate information published on website.	Need /capacity to produce an annual report to be reviewed	Dec-10	The quarterly performance reports are published on the council's internet. The Council's budgets, MTFP and accounts are published on the intranet. Other relevant corporate data is published on the internet	A reminder to all staff to ensure that published data is kept up to date and relevant	Corporate Support Manager	Throughout 2011/12
		Accountability extends to the recording of assets held on trust for the community	Inventories	Ensuring information / reports are publicly available whenever possible, and that confidential papers are limited in accordance with the criteria laid down in the constitution.	Information available over a range of media -leaflets, Internet, press etc. Citizens rights part of the Constitution	None		Information available over a range of media -leaflets, Internet, press etc. Citizens rights part of the Constitution		Director of Governance	
				Risk of loss or poor use of assets through publication of appropriate inventories	Inventories required to be checked at least once a year at year-end.	None		Inventories required to be checked at least once a year at year-end.		Director of Governance	

Governance Framework – Revised Basket of Measures 2010/11

Factor	Measure	Target	Result
1. Ethical Standards	<ul style="list-style-type: none"> a) Number of complaints upheld against <ul style="list-style-type: none"> a. Members b. Formal Service Delivery b) Officers Turnover rate c) Number of grievances upheld against staff d) Number of disciplinaries against staff <ul style="list-style-type: none"> a. Major b. Minor e) Sickness levels 	<ul style="list-style-type: none"> a) 0 b) < 5% c) 0 d) 0 e) <8 days/employee/year 	<ul style="list-style-type: none"> a) None b) None c) <5 % d) <ul style="list-style-type: none"> a. 3 b. 0 e) 8.75 days
2. Constitutional Review undertaken	<ul style="list-style-type: none"> a) Effective Scheme of Delegation b) Effective Financial Procedure Rules c) Effective Contract Procedure Rules 	<ul style="list-style-type: none"> a) Completed and reviewed annually by the relevant Committee 	Review of Constitution undertaken in year, and updated as required. Latest version dated April 2011
3. Clear and up to date Corporate Objectives	<ul style="list-style-type: none"> a) Corporate Plan b) Medium Term Financial Plan c) Annual Budget 	<ul style="list-style-type: none"> a) Completed and reviewed annually by the relevant Committee b) Completed and reviewed annually by the relevant Committee c) Budget delivered within tolerance 	<ul style="list-style-type: none"> a) Corporate Plan 2008-2020 last updated March 2010. Being refreshed following May 2011 election. b) MTFP reviewed by Scrutiny 12/1/11 & Cabinet 7/2/11 and recommendations made to Council c) Budget reviewed by Cabinet 7/2/11, adverse variances reported monthly to members via the Budget Monitoring Report
4. Openness and Transparency	<ul style="list-style-type: none"> a) Accurate Records of Decisions b) Easy access to decision making process 	<ul style="list-style-type: none"> a) No significant challenge b) Agendas, reports & minutes available online(except exempt 	<ul style="list-style-type: none"> a) No challenges b) Documentation made available on-line

Factor	Measure	Target	Result
	<ul style="list-style-type: none"> c) Up to date Anti Fraud and Corruption Policy, including a Whistle blowing Policy d) Effective Scrutiny Committee e) Agendas published in accordance with Statutory requirements 	<ul style="list-style-type: none"> information) c) Reviewed annually d) Number of reviews undertaken and number of recommendations accepted e) All agendas published 5 clear days prior to meetings 	<ul style="list-style-type: none"> c) Review of policy undertaken alongside Constitution review. d) Annual report shows 75 recommendations made with 61 approved e) Target met
5. Performance Management	<ul style="list-style-type: none"> a) Effective Project Management b) Periodic review of Risk Management Strategy by relevant Committee 	<ul style="list-style-type: none"> a) Major Projects risks and milestones are identified and effectively project managed b) Risk Management Strategy is reviewed by Governance (Audit) Committee annually 	<ul style="list-style-type: none"> a) Monitored via an officer Project Review Team, the Major Projects Dashboard, CMT and SMT b) Risk management presentation planned for the new Governance Committee by September 2011
6. Ethical Framework	<ul style="list-style-type: none"> a) Up to date job descriptions for Statutory Officers b) Up to date Member/Officer Protocols c) Up to date pay and conditions practices 	<ul style="list-style-type: none"> a) In place and annual PPR undertaken b) In place and subject to annual review c) In place and reviewed annually 	<ul style="list-style-type: none"> a) Job descriptions in place, PPR process undertaken b) Reviewed as part of the Constitution review c) Revised Terms and Conditions which apply across three East Kent authorities were adopted in autumn 2010 , an annual pay review was undertaken

Factor	Measure	Target	Result
			in June 2010
7. Partnerships	<ul style="list-style-type: none"> d) Partnership Evaluation Criteria in place and used effectively and appropriately. e) Framework for Partnership Working 	<ul style="list-style-type: none"> a) Evidence of use for all partnerships b) In place and reviewed annually 	<ul style="list-style-type: none"> a) The focus for evaluating partnership working will be on the emerging East Kent partnerships to ensure that service levels are at least maintained and value for money is improved.
8. Member and Officer Development	<ul style="list-style-type: none"> a) Up to date Training Plan that addresses Corporate Priorities b) Up to date Member and Officer Induction Scheme 	<ul style="list-style-type: none"> a) 50% minimum attendance at training events b) Annual review of training provision for Members c) Delivered and kept up to date 	<ul style="list-style-type: none"> a) Training plan in place throughout 10/11. >75% attendance at Change Management workshops linked to the shared service agenda b) New induction scheme for officers is being developed by EKHRP. c) Updated Induction and training plan in place for the new Council from May 2011.
9. Levels of public satisfaction/ community confidence	<ul style="list-style-type: none"> a) Number of service level complaints received. b) No. of complaints upheld by the ombudsman 	<ul style="list-style-type: none"> a) Reduction year on year. b) none 	<ul style="list-style-type: none"> a) 100 b) None
10. Avenues of accessibility to Council Services	<ul style="list-style-type: none"> a) DDA compliance (previously LP158) b) Average waiting times for all contact centre areas(previously LP157) c) Website visitors (previouslyLP156) d) Website accessibility rating (previously LP155) 	<ul style="list-style-type: none"> a) No unplanned reduction in service from 2009/10 levels 	<ul style="list-style-type: none"> a) No reduction b) 57 sec c) 102,872 d) Website accessible
e) Legality of decision making	<ul style="list-style-type: none"> a) Number of ultra vires decisions b) Number of breaches of Constitution 	<ul style="list-style-type: none"> a) 0 b) No significant issues 	<ul style="list-style-type: none"> a) 0 b) No significant issues

REPORT ON THE CONSULTATION BY THE DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT ON THE FUTURE OF LOCAL PUBLIC AUDIT

Recommendations

It is recommended that Governance Committee note the implication of the consultation proposals and approve the response at Annex 1.

Contact Officer: Mike Davis, extension 2107.

Purpose of Report

1. To approve the response, at Annex 1, to the DCLG consultation on the Future of Local Public Audit.
2. Members should note that the DCLG proposals will fundamentally change the composition and role of the Audit (Governance) committee.
3. The remainder of this paper covers:
 - Background
 - Summary of the DCLG proposals
 - Main issues Members may want to consider
 - Annexes:
 - Annex 1 – proposed responses to the 50 questions posed in the consultation paper
 - Annex 2 – The full consultation paper.

Background

4. The Audit Commission is responsible for overseeing the audit of local authority accounts. It is the commissioner of all local authority audits, and undertakes a large proportion of the audits itself, including the audit of Dover District Council and the other East Kent Councils, using its in-house audit service. The other audits are undertaken by commercial audit firms, paid at rates which generally reflect the levels charged by the Audit Commission.
5. The Secretary of State for Communities and Local Government has decided to abolish the Audit Commission (although it will continue to operate through 2011/12 and possibly up to 2013/14 or beyond) and is now consulting on the arrangements that should be put in place to secure the audit of local authority accounts in the future.
3. The consultation runs to 54 pages and raises 50 questions for the consultees to consider. Normally it would not be considered necessary to include the full consultation within committee papers, and Members would simply be provided with a summary, and a reference to the DCLG web site.

4. However, the questions in the consultation arise from detailed and technical discussions of the current arrangements and the DCLG proposals for change.
5. Therefore, to assist Members, the main issues are set out below, and referenced to the draft response. But, in order to ensure that Members are able to follow all of the proposed responses they are provided at Annex 1, with the full consultation paper at Annex 2.
6. A short summary (16 pages) of the consultation has been produced by Ian Fifield, from consultants, LGF. Given the length of this report and Annexes, this additional summary has not been included. However, it can be e-mailed to Members on request.
7. The consultation closes on 30 June 2011.

Summary of DCLG's Proposals

8. The Secretary of State's main aims are to:
 - Disband the Audit Commission and transfer the work of the Audit Commission's in-house audit service to the private sector (which may include a mutual organization formed by former Audit Commission staff);
 - Enable local authorities to appoint their own independent auditors;
 - Provide new arrangements for the audit of local health bodies (not a significant issue for DDC); and
 - Ensure that all local public bodies are still subject to robust auditing.
9. The underlying approach is to replace the current structure and approach to local public audit with a model that is much closer to the private sector approach, but adapted to meet the specific requirements of the public sector.
10. The consultation covers:
 - **Section 1** – Introduction (Scope and Principles)
 - **Section 2** – Regulation of local public audit
 - **Section 3** – Commissioning local public audit services
 - **Section 4** – Scope of audit and the work of the auditors
 - **Section 5** – Arrangements for smaller bodies.
11. The main issues for each of the sections are outlined below.

Section 1 – Introduction (Scope and Principles)

12. It is proposed that the National Audit Office will prepare the Codes of Audit practice which determines the approach taken by the auditors. Registration of audit firms and monitoring and enforcement of audit standards will be undertaken by the professional accountancy bodies under the supervision of the Financial Reporting Council.
13. The design principles used by the DCLG to develop the new approach are:
 - localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors

from a more competitive and open market, while ensuring a proportionate approach for smaller bodies

- transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
- lower audit fees – achieving a reduction in the overall cost of audit
- high standards of auditing – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit

14. Questions 1 and 2 are raised in Section 1. Only question 1 is of relevance to DDC, and 2 alternative draft responses are provided at Annex 1 for Members to consider.

Section 2 – Regulation of local public audit

15. Section 2 proposes that:

- the National Audit Office produces the audit Codes of Practice and supporting guidance to be used by local public auditors;
- the Financial Reporting Council acts as the regulator for local public audit
- auditors must be members of recognized supervisory bodies (RSBs - presumably the main accountancy institutes) and eligible for appointment under the rules of that body;
- RSBs will be responsible for monitoring the quality of audit work, investigating complaints and disciplining their members. They could also stop an unsatisfactory firm from being eligible for appointment.

16. In essence, there will be a list of audit firms recognised as being qualified to undertake public audit work.

17. Questions 4 to 10 are raised in Section 2. Members may regard these questions as largely uncontentious.

Section 3 – Commissioning local public audit services

18. Sections 3 and 4 are at the heart of the proposals and Members may therefore want to read them in full at Annex 2.

19. It is proposed that instead of auditors being appointed by the Audit Commission, the appointment would be made by full Council, who will receive the advice of the audit committee. The electorate would have an opportunity to input to the process, although it is not clear exactly how this would happen.

20. Councils may choose to jointly appoint an auditor, so DDC could agree to procure audit services with East Kent partners. In the event that a council fails to appoint an auditor then the Secretary of State may either have the power to direct the council to appoint an auditor, or may have the power to appoint one himself.

21. Auditors could be appointed for 5 years, with one renewal, but after 10 years a new firm must be appointed. There are also safeguards in place for the dismissal or resignation of auditors.

22. Section 3 also sets out proposals for the composition of the audit committee. This is likely to be the most contentious element for Members.

23. It is proposed that audit committees should include independent, non-elected members who can only be considered if:
- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
 - is not a member nor an officer of that or any other relevant authority
 - is not a relative nor a close friend of a member or an officer of the body/authority
 - has applied for the appointment
 - has been approved by a majority of the members of the council
 - the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate
24. It is also proposed that:
- the chair and vice-chair of the authority would be independents
 - elected members on the audit committee should be non-elected, non-cabinet members, with at least one (and ideally one third of all members) having recent and relevant financial experience
 - there would be a majority of members on the committee who are independent
25. Finally, this section also considers the role of the audit committee. Two options are outlined. The first takes a narrow approach and considers the audit committee having one mandatory duty, which is to advise council on the appointment or removal of an auditor.
26. The second option is a wider and more detailed mandatory role covering:
- providing advice to the full council on the procurement and selection of their external auditor
 - setting a policy on the provision of non-audit work by the statutory auditor overseeing issues around the possible resignation or removal of the auditor
 - seeking assurances that action is being taken on issues identified at audit
 - considering auditors' reports
 - ensuring that there is an effective relationship between internal and external audit
 - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
 - providing advice to the full council on the quality of service they are receiving
 - reporting annually to the full council on its activities for the previous year
27. Questions 11 to 28 are raised in Section 3.

Section 4 – Scope of audit and the work of the auditors

28. Section 4 offers four options for the potential scope of audit work. They are:

Option 1 – The auditor would:

- give an opinion on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure

- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules.
- This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.

Option 2 – This option is the same as option 1, but in addition the auditor would:

- provide a conclusion as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)
- This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money.

Option 3

- This option is designed to provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an opinion on the financial statements, but would provide conclusions on:
- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime
- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

Option 4

- Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.
- The auditor would be required to:
- give an opinion on the financial statements
- review the audited body's annual report and
- provide reasonable assurance on the annual report

29. Questions 29 to 41 are raised in Section 4.

Section 5 – Arrangements for smaller bodies

30. Section 5 is likely to be relevant to the district's town and parish councils where different arrangements are proposed for local public bodies with income and expenditure of less than £6.5m per annum.

31. The arrangements group local public bodies into annual income/expenditure bands as follows:

- Less than £1,000
 - £1,000 - £50,000
 - £50,000 - £250,000
 - £250,000 - £6.5m.
32. For these bodies it is proposed that KCC (the s151 officer or full council) would appoint an independent examiner (IE) for each of the Towns and Parishes. In practice the IE could be an officer of KCC.
33. District Councils are not given any role in these arrangements. KCC could have to appoint circa 300 IEs to the various town and parishes councils in Kent. Being closer to the day-to-day issues of parish councils in their districts, it would be more logical for District Councils to play this role.
34. Members may want this report to be copied to town and parish councils so that they are able to respond to the DCLG.

Issues to Consider

35. The consultation is a long and complex document. To assist Members the table below has been drawn up to highlight issues that they may wish to consider.

Number	Issues Members May Wish to Consider/Debate
1	Do Members prefer response 1 or response 2 (as set out in Annex 1) as an answer to question 1 of the consultation?
2	Do Members support an approach to local public audit based on the private sector model. Do Members agree with the answer to question 4 as set out in Annex 1?
3	Do Members consider that the decision to abolish the Audit Commission and open up the market is likely to increase or reduce audit fees? See question 7, Annex 1?
4	Do Members support the proposal for an independent (ie non elected) chair and vice-chair, and a majority of independents on the audit committee? Will it be practical to find suitable independent Members that are acceptable to Council?
5	Should the mandatory role of the Audit Committee be limited to recommendations on the appointment of an auditor, or should the mandatory role be wider as set out in Option 2, section 3 of the consultation? See question 6, Annex 1.
6	Which of the 4 options for the scope of the audit, as set out in Section 4 (paras 4.14 – 4.25) of the consultation, do Members consider most appropriate?
7	Do Members want to seek the views of town and parish councils on the proposed arrangements for them (questions 42 onwards)?

Number	Issues Members May Wish to Consider/Debate
8	<p>The Audit Commission and DCLG have considered bundling audit contracts on a geographic basis (for example all Kent districts and county audits). Former Audit Commission staff (though a mutualised arrangement) or other firms that successfully bid for the work would then have the Audit Commission staff TUPE'd to them.</p> <p>This process simplifies the procurement process and where the bids are successful, this could save costs on redundancies and protects existing staff. But it would mean that individual councils could not independently award contracts, and that is a key design principle.</p> <p>Would Members support a bundling approach to the letting of audit contracts, or procurement with other partners, or do Members prefer the freedom to award the contract for DDC alone.</p>
11	Are Members content with the proposed answers as set out in Annex 3?

Attachments

- Annex 1 – proposed responses to the 50 questions posed in the consultation paper
- Annex 2 – The full consultation paper (circulated separately for Members of the Committee only).

MIKE DAVIS

Director of Finance

K:\Accountancy\Audit\The Future of Public Audit Consultationv3.doc

Consultation questions and proposed responses

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

Two options have been drafted below as possible responses to this question. Response 1 addresses only the narrow question raised. Response 2 takes a wider view of the role of local authority accounts in local accountability, and the opportunities to take a more fundamental approach. Members' views are sought on the approach they wish to take.

Response 1

The principles of localism and decentralization, transparency, lower audit fees and high standards of auditing are reasonable design principles, but the consultation paper falls short of meeting them all.

It is a matter of concern that although the paper talks of the need to trust local bodies, that does not extend to the appointment of auditors by elected Members. The proposal for non-elected members on audit committees is in conflict with the principles of localism and the Council considers this a step too far.

If an approved list of audit firms can be established (possibly via the Office for Government Commerce) then the procurement of audit by individual councils will be quick, efficient and competitive (whether by individual councils or jointly) and the professional standards and codes governing the firms will ensure high standards of auditing, particularly as firms will not want to lose their place on the approved list.

Response 2

Local authority accounts are complex to read, expensive to produce and audit, and do not serve the stakeholders well. Indeed, it is no longer apparent who the stakeholders are, since the accounts are not generally read by Members or the public, whose needs are best met by summarised accounts and outturn reports.

The proposals represent a missed opportunity to take a holistic approach to local authority accounts and consider:

- *how local authority accounts should be reformed to:*
 - *provide simple, accessible, relevant and meaningful information to stakeholders*
 - *reduce the costs of production*
 - *reduce the costs of audit*
- *the approach to audit of the accounts*
- *the most appropriate type of organisation to undertake the audit – an audit firm or a reformed Audit Commission.*

Only when these issues have been addressed can the issue of design principles be properly considered.

Nothing in the consultation gives any indication that these issues have been thought through before issuing the consultation, or deciding that a reformed Audit Commission would not be the best vehicle for future local government audit.

Therefore, although the design principles themselves are reasonable, they exist in something of a vacuum and the accounts that councils will continue to publish will not meet local needs or the principles of transparency and low audit fees.

2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

Yes.

3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Yes. Although the NAO may have a conflict of interest in commenting on the DCLG proposals, and in having a role in their implementation.

4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

This would appear to be a reasonable approach, but more information is required on how this would work in a public sector context. The private sector approach cannot be regarded as an unqualified success.

For example, the auditors approved and controlled under the Companies Act 2006 were content to sign the accounts of UK and US banks, insurance companies, etc etc when subsequent events would suggest that the auditors either did not understand the risks, or were unwilling to issue qualified opinions..

5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

It would be reasonable for the Financial Reporting Council to maintain and review the register. But an OGC managed procurement process could then be undertaken to provide an approved list from which local authorities could draw, without needing to comply with the detailed requirement of EU procurement on an authority by authority basis.

6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

New firms must be able to demonstrate their awareness of the requirements of public sector audit, including the skills and experience of staff, quality standards and review procedures etc before they can be considered.

If the OGC establishes basic quality thresholds for all firms seeking public audit contracts, whether they are new entrants to the market or not, then the new entrants would only be required to demonstrate these qualities once in order to get onto the approved list.

However, the Council believes that without the Audit Commission, and with a limited supply of experience staff, the market will generally tend to be dominated by the

larger national firms with the demonstrable skills and experience, and this may lead to an upward pressure on fees.

7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Firms would need to demonstrate an understanding of the specific accounting treatments required of the public sector in general and local authorities in particular, the main legislative constraints and requirements applying to local authorities and the governance regimes within which local authorities are required to operate.

8. What should constitute a public interest entity (ie a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

Local authorities have little experience of PIE's and the consultation gives no information on the implications of the approaches considered. It is not, therefore, possible to offer responses to questions 8, 9 and 10.

9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

–

10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

–

11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

The arrangements are sufficiently flexible to allow for voluntary joint procurement by a number of Councils working together.

However, the Council also understands that the DCLG have considered the idea of letting contracts in geographic bundles (for example all Kent District Councils). This would appear to conflict with the idea of local appointment, and any requirement to get a larger number of Councils working together may bog the process down.

The suggestion at paragraph 3.6 that the electorate can make an input into the appointment of the auditor is also not adequately developed in the consultation. It is not clear if the public are to be allowed to speak, at Council, on the appointment, or if the suggestion is that they participate in the work of the audit committee.

It is also not clear how many members of the public have, in the past, been frustrated in their ambitions to participate in the appointment of the auditors, and disappointing that no evidence is offered, but it is likely to be a very small number. Although the theory sounds plausible, this may have little application in practice.

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

No. The proposals ensure the independence of the independent members, but do not contain any measures that ensure the quality or skills of the independent members, other than that they must be acceptable to a majority of the council.

The Council believes that the proposal for a majority of the Audit Committee to be independent is unnecessary and takes the proposals too far. No evidence has been brought forward to demonstrate the effectiveness of local authority audit committees.

It may be a good idea to have an independent perspective on work of the Committee, but having a majority of independent members undermines the position of elected members and the principle of localism. The proportion of non-elected members should be a matter for the Council to decide.

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

It is desirable that independent members have financial skills and this should be one of the criteria for their appointment. Indeed, this would be easier to achieve than it would for elected Members where it is not possible to ensure that there are non-executive, non-cabinet Members with relevant financial experience.

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Recruiting sufficient, suitably qualified, independent members who have had no recent roles within local authority and who have no close connections with current officers or Members, but who are interested in serving on a local authority audit committee is likely to be a challenge.

Remuneration will be a matter for the Council's Independent Remuneration Panels, and the levels are likely to be comparable to those set of independent members on Standards Committees.

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

The Council recognises the potential benefit of one or more suitable qualified independent members of the audit committee. But the precise numbers, and the decision as to whether the Chairman should be independent are matters for the Council, not the DCLG.

The final appointment of the auditor will be a matter for full Council, which will consider the recommendations of the Audit Committee, together with the debate and contributions from other members and possibly the public. Therefore the proposals only safeguard the advice to Council, not the appointment of the auditor.

16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

The Council supports Option 1. There should only be one mandatory duty for the Audit Committee. It is quite likely that the Council will choose to add to the Committee's roles and, in practice, the Committee's operation will more closely resemble option 2. But that is a matter for the Council to determine.

17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

It is appropriate that the roles are undertaken by a Committee, and that they are specified in legislation. However, the role of the Audit Committee should be narrowly prescribed, and the additional roles should be discharged as the authority sees fit. It is very likely that the majority of Councils will require the Audit Committee to undertake the roles, and that would be a sensible solution, but the principle of localism requires that this is a decision for the Council.

18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Yes. The NAO should maintain it.

19. Is this a proportionate approach to public involvement in the selection and work of auditors?

The approach suggested is proportionate so long as there are reasonable safeguards to deal with repeated or vexatious complaints.

20. How can this process be adapted for bodies without elected members?

As a local authority the Council does not have experience in this area.

21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

It is not clear what circumstances might give rise to this situation.

If, for example, Councils in more remote areas of the country find that there are no local firms with the necessary skills and expertise available to undertake the work, or no regional/national firms able to undertake the work at a cost that is no more than the former cost of the Audit Commission, the Council may face a significant cost increase in order to comply with the requirement.

Option 1 is the most reasonable response, but presumably the Council will have tried to comply with its statutory requirement, and therefore option 2 would seem to be the inevitable consequence.

22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

It is reasonable that the appointment is notified to the Secretary of State or some other body, in order that the Secretary of State can be certain that all authorities have appointed auditors.

23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

The DCLG.

24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Yes. A maximum of ten years is appropriate.

25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Yes. The safeguards are sufficient.

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Yes.

27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

The safeguards are sufficient. However, the auditor is an individual, not a firm, and that person may resign for many reasons outside of those given in the consultation. Many of them may be personal, such as a change of employer, changing personal circumstances etc.

It is assumed that under these circumstances the audit firm would propose the appointment of a new auditor from their firm, and under these circumstances this would be a relatively smooth process, providing that the individual is acceptable to the local authority.

28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

A framework is required to prevent auditors limiting their liability to an unreasonable extent.

Consideration also needs to be given to the level of materiality employed by the Audit Commission and that which is likely to be employed by audit firms under the new arrangements. Financial/political materiality at a local authority may be at a lower level than it is in the commercial sector.

29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?

There is a danger that, by requiring auditors to form conclusions on a Council's arrangements, an element of the old Use of Resources regime may be retained and this could become too subjective.

Publication of clear, verifiable, non-subjective high level vfm data such as net budget requirement per resident, council tax levels etc, compared to similar authorities within the same "family group" would be a reasonable solution.

The Council considers option 2 to provide the best compromise.

30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

It is a matter for elected Members to decide how to explain their authority's plans and performance to the electorate, whether by annual report or other means.

31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

It would be reasonable to require authorities to report on financial resilience, regularity and propriety, although it should be possible to do this without also requiring an annual report. For example, a report to the Audit Committee on these matters would be a public report.

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

It is not accepted that an annual report should be mandatory.

33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

It is not accepted that an annual report should be mandatory.

34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

Yes, the ability for auditors to report in the public interest should be retained. Given the proposed safeguards, the Council does not feel the auditor's independence will be compromised.

35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Yes, but this should always be reported to the Audit Committee before the work is awarded, and Councils should follow their procurement arrangements and standing orders so other firms can compete for the work.

There should be a cap on the value of such work as a proportion of the value of the audit fees, and also as a proportion of the audit firm's fee income, so that firms are

not compromised in their ability/readiness to provide a qualified opinion if circumstances warrant it.

36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Yes.

37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Yes, both the auditor and Audit Committee should be designated 'prescribed persons'.

38. Do you agree that we should modernise the right to object to the accounts? If not, why?

Yes, modernising the right to object to the accounts makes sense. The public have the FOI Act, ombudsman and other routes to seek information or redress.

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Yes, except for the FOI proposals.

40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

The Council has concerns that if the auditors are brought within the scope of the FOI Act, then vexatious or frivolous requests could significantly increase the costs to the Council, whilst being outside the Council's control. The volume and cost of FOI work is already a significant concern, and disproportionate to the benefit. It would be a retrograde step to increase the volume and costs.

41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

For the reasons set out above, the concern is that this will add to the costs of the audit, but will add very little value to the public.

The following questions relate, primarily, to town and parish councils and it may be appropriate to seek their views on this section.

42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Neither approach is satisfactory. The Council believes that the creation of an audit committee is excessive for small bodies, except for those in the £250k - £6.5m range where such an arrangement would be proportionate.

The appointment of an independent examiner should be the role of the next tier above. So it should fall to District or Unitary Councils who will be close to the small bodies, and will have to deal with proportionately smaller numbers.

Fees are likely to increase from their current modest levels.

43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

No. For the reasons set out above, the IE should be appointed by the District or Unitary Council. This should be on the basis of recommendations by the S151 Officer to the District or Unitary Councils Audit Committee who could either be empowered to confirm or reject the proposed appointments, or else required to make their recommendations to full Council for approval.

44. What guidance would be required to enable county/unitary authorities to:

- (a) Appoint independent examiners for the smaller bodies in their areas?
- (b) Outline the annual return requirements for independent examiners?

Who should produce and maintain this guidance?

The guidance and advice should be produced by the NAO.

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Yes, but it would be a disproportionate burden on bodies below £250k.

46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

The Council has no other options to propose.

Are there many small port health authorities that straddle more than one county/unitary? If so, make the authority within which most of the port health area rests, the responsible body.

47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, eg a narrower scope of audit?

Yes, it is too complex. The consultation identifies a population of 9,900 small bodies. If these are mainly Town and Parish Councils, then relatively few of these fall within London Boroughs and Metropolitan authorities, and Counties and Unitary authorities could be faced with appointing IE's to 200+ small bodies each. It would be surprising if they had any detailed knowledge of the small bodies concerned.

48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

This is confusing. County Councils do not precept on Town and Parish Councils, and there will be very few, if any, District Councils below the £6.5m threshold.

49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

No. The role should rest with the District Council, not the County.

50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

No. The role should rest with the District Council, not the County.



Future of local public audit Consultation



Future of local public audit
Consultation

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000
Website: www.communities.gov.uk

© Crown Copyright, 2011

Copyright in the typographical arrangement rests with the Crown.

This publication, excluding logos, may be reproduced free of charge in any format or medium for research, private study or for internal circulation within an organisation. This is subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

If you require this publication in an alternative format please email alternativeformats@communities.gsi.gov.uk

DCLG Publications
Tel: 030 0123 1124
Fax: 030 0123 1125

Email: product@communities.gsi.gov.uk
Online via the website: www.communities.gov.uk

March 2011

ISBN: 978 1 4098 2933 1

Contents

Ministerial foreword		4
Glossary		6
1: Introduction		
	What is audit and why is it important?	10
	Current arrangements for the audit of local public bodies	11
	Proposals for a new audit framework for local public bodies	11
	Design Principles	12
	What this consultation covers	13
	Audit Commission functions excluded from this consultation	14
	Timing and how to get involved	15
	Costs	15
	Who are we consulting?	16
	How to respond	16
	Publication of responses	16
2: Regulation of local public audit		
	Standards and Codes of Practice	18
	Registration of auditors	19
	Monitoring and Enforcement	22
3: Commissioning local public audit services		
	Duty to appoint an auditor	23
	Role of the audit committee	27
	Involvement of the public in the appointment of an auditor	29
	Applicability to other sectors	30
	Failure to appoint an auditor	30
	Rotation of audit firms and audit staff	32
	Resignation or Removal of an auditor	33
	Auditor Liability	36
4: Scope of audit and the work of auditors		
	Scope of local public audit	37
	Public Interest Reporting	41
	Provision of non-audit services	42
	Public Interest Disclosure	44
	Transparency	45
5: Arrangements for smaller bodies		
	Current system	48
	Appointing the examiner	53
	Public Interest Reporting for smaller bodies	54
	Objection to accounts for smaller bodies	54
	Regulatory Regime for smaller bodies	55
6: List of consultation questions		
	List of consultation questions	56
Appendix A	Audited bodies published accounts	60
Appendix B	List of bodies to which the Audit Commission appoints auditors in England	61
Appendix C	Recognised supervisory bodies and recognised qualifying bodies in England	63

Ministerial foreword

“...The Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state. We need to redress this balance.”

Secretary of State for Communities and Local Government 13 August 2010

On 13 August, the Secretary of State for Communities and Local Government announced our plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.

We want to drive power downwards to people. We want local public bodies to be more accountable to their citizens, to you the taxpayer, rather than upwards to Whitehall. That is what localism is all about.

The current arrangements for local audit, whereby a single organisation - the Audit Commission - is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Audit Commission has increased the professionalism and the quality of local government audit, but, it has also become too focused on reporting to central Government and supporting the previous era of a target driven Government.

We are clear that centralised inspection and supervision have no part in localism and that they can be an unnecessary burden on frontline services at a time when they must be tightening their belts and focusing on service delivery; they also drive a culture of compliance rather than initiative and problem solving. If our local services are going to be genuinely responsive, tailored to the needs of local people, then they must be accountable to those same people. This is why we want to put in place a new locally focused audit regime, which is open and transparent but retains the high quality of audit that we expect.

This consultation sets out our vision for the future of local audit. This vision is firmly based on four principles. The first of these is localism. When reforms are complete local public bodies will be free to appoint their own independent external auditors from a more competitive and open market. The second is transparency; local public bodies will become increasingly accountable for their spending decisions to the people who ultimately provide their resources. The third is to remove the overheads charged by the Audit Commission to service the central government machine. At a time when we are taking decisive action to reduce the deficit, we think it is important that we deliver a framework which sees a reduction in the overall cost of audit to local bodies. The fourth principle is high standards of auditing. Make no mistake, we are determined that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.

To meet these principles, the consultation sets out proposals which would see all local public bodies with a turnover of over £6.5m appointing their own independent auditor. This appointment would be made on the advice of an independent audit committee.

Auditors would be regulated under a system which mirrors that of the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. We envisage that the National Audit Office will set the code of audit practice and we have put forward options for the scope of audit in the new framework. The consultation document also sets out how transparency will be increased in the new framework and our proposals for auditing smaller bodies with a turnover below £6.5m in a proportionate way.

Alongside these proposals, the consultation asks a number of questions, to which I would welcome your responses. Your contribution will help us to further develop the framework before publishing legislation in draft in the autumn.

We look forward to hearing your comments on how we can make the future of local audit robust and efficient while ensuring that local public bodies are truly accountable to those they serve.

A handwritten signature in black ink, appearing to read 'Grant Shapps'.

Rt. Hon Grant Shapps MP

Glossary

Accountancy and Actuarial Disciplinary Board

An independent board which has the ability to investigate and discipline accountants and actuaries who are members of the following professional bodies: the Association of Chartered Certified Accountants; the Chartered Institute of Management Accountants; the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants in England and Wales; the Institute of Chartered Accountants of Ireland and the Institute of Chartered Accountants of Scotland.

<http://www.frc.org.uk/aadb/>

Charities Act 1993

The Charities Act 1993 sets out the regulatory framework in which charities operate.

http://www.charity-commission.gov.uk/About_us/Regulation/default.aspx

CIPFA

Chartered Institute of Public Finance and Accountancy is the professional body for people in public finance.

www.cipfa.org.uk

Companies Act 2006

The Companies Act 2006 forms the primary source of UK company law.

<http://www.companieshouse.gov.uk/companiesAct/companiesAct.shtml>

Comptroller and Auditor General

Created by the Exchequer and Audit Departments Act 1866 to authorise funding to Government departments and examine departmental accounts, reporting the results to Parliament.

Drainage Boards

An operating authority, established in areas of England and Wales with particular drainage needs. The Board is responsible for work to secure clean water drainage and water level management.

<http://www.ada.org.uk/>

Financial Reporting Council

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

They also oversee the regulatory activities of the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

<http://frc.org.uk/>

Freedom of Information Act 2000

Legislation which enables any member of the public to request information from a public body.

Grant Certification

The Audit Commission is required by the Audit Commission Act 1998 to make arrangements for the certification of grant claims when requested to do so by public bodies in receipt of grant funds.

Health and Social Care Bill

The Bill takes forward the areas of Equity and Excellence: *Liberating the NHS* (July 2010) and the subsequent Government response *Liberating the NHS: legislative framework and next steps* (December 2010). It also includes provision to strengthen public health services and reform the Department's arm's length bodies.

International Financial Reporting Standards

IFRS is an independent, not for profit private sector organisation which works on behalf of the public sector to develop standardised financial reporting standards.

<http://www.ifrs.org/>

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) develops and promotes proper accounting practice for local government in Scotland in line with legislation, International Financial Reporting Standards (overseen by the International Accounting Standards Board) and the work of the Financial Reporting Advisory Board.

<http://www.cipfa.org.uk/pt/cipfalasaac/index.cfm>

Lord Sharman

Liberal Democrat peer, previously the spokesman for Business, Enterprise and Regulatory Reform and former chairman of KMPG. Lord Sharman's review of audit and accountability for central government, *Holding to Account: the Review of Audit and Accountability in Central Government* was published in February 2001.

http://archive.treasury.gov.uk/docs/2001/sharman_1302.html

Management Commentary

A narrative report which provides the context or background to the financial position, performance and cash flow of an authority or public body.

National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent

and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

www.audit-commission.gov.uk/nfi

Police Reform and Social Responsibility Bill

The Bill will make the police service more accountable to local people by replacing police authorities with directly elected police and crime commissioners to be introduced from May 2012.

Professional Oversight Board

The Professional Oversight Board (POB), formerly known as the Professional Oversight Board for Accountancy, is a UK regulatory body specialising in the accounting, auditing and actuarial professions.

www.frc.org.uk/pob

Public Audit Forum

The public audit agencies, the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit.

<http://www.public-audit-forum.gov.uk>

Public Interest Reports

Under Section 8 of the Audit Commission Act 1998, the appointed auditor is required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public.

Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998 is an Act that protects whistleblowers from detrimental treatment by their employer.

Remuneration report

Companies produce a report containing certain information concerning director's remuneration, governed by the Directors' Remuneration Report Regulations 2002,

Section 151 officer

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

Special Health Authorities

Special health authorities are health authorities that provide a health service to the whole of England, not just to a local community. They have been set up to provide a national service to the NHS or the public under section 9 of the NHS Act 1977. They are independent, but can be subject to ministerial direction in the same way as other NHS bodies.

Unitary Authority

Since 1996 the two-tier structure of local government has ceased to exist in Scotland and Wales, and in some parts of England, and has been replaced by single-tier unitary authorities, responsible for all local government services.

Whole of Government Accounts

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector and audited by the National Audit Office. WGA is a consolidation of the accounts of about 1500 bodies from central government, devolved administrations, the health service, local government and public corporations.

Section 1

1. Introduction

- 1.1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.
- 1.2. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.
- 1.3. This consultation paper discusses the Government's proposals for how a new local audit framework could work and seeks your views.
- 1.4. This document has been developed by the Department for Communities and Local Government. Our proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, accountancy professional bodies, local government, other local public bodies and Government departments with an interest.

What is audit and why is it important?

- 1.5. An audit is the review of financial statements, resulting in the publication of an independent opinion on whether those statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and present a true and fair view. A summary of accounting arrangements for local bodies other than those in the health sector is at appendix A.
- 1.6. The audit of public bodies plays a key role in ensuring that those responsible for handling public money are held accountable for the use of that money. Public audit strengthens accountability, both upwards to the elected or appointed members who make decisions about the allocation of resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community. Regular public audit also provides assurance on bodies' arrangements for managing their finances properly, including their arrangements for value for money and to safeguard public money.

Current arrangements for the audit of local public bodies in England

- 1.7. There are approximately 11,000 local public bodies which, together, are responsible for some £200bn of public money. Of these, there are 353 local authorities; 268 NHS bodies (in addition to Special Health Authorities audited by the National Audit Office, and Foundation Trusts); 38 police authorities; and 215 other bodies, including fire and rescue authorities; national park authorities; conservation boards; larger internal drainage boards, joint committees; and probation trusts. The remaining 9,800 bodies, with income or expenditure ranging from £1m down to £1,000 or less, comprise: 9,400 parish and town councils; 150 internal drainage boards; and 250 other bodies (for example, charter trustees and port health authorities). A list of the categories of bodies audited by the Audit Commission is set out in Appendix B.
- 1.8. The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 (as amended). Since its inception in 1983, the Audit Commission has acted as the regulator, commissioner and provider of local audit services.
- 1.9. Acting as the overall regulator, the Audit Commission publishes two statutory Codes of audit practice - one for local government bodies and one for health bodies - which are approved by Parliament. These set the standards for audit and require auditors to comply with the auditing and ethical standards issued by the Auditing Practices Board¹ (which is part of the Financial Reporting Council)². The Commission monitors the quality of audit, although the professional accountancy bodies also monitor their members.
- 1.10. Acting as the commissioner, the Audit Commission appoints auditors, either from its in-house practice or from firms contracted to the Commission, to local public bodies.
- 1.11. The Audit Commission also acts as the main provider in the current system, with 70 per cent of local public audits undertaken by its in-house practice.

Proposals for a new audit framework for local public bodies

- 1.12. The Government believes that the current arrangements for local public audit, whereby a single organisation is the regulator, commissioner and provider of local audit services are unnecessarily centralised. There is a lack of transparency and clarity as well as potential conflicts between the roles.
- 1.13. The proposals set out in this consultation build on the statutory arrangements and professional ethical and technical standards that currently apply to companies. However, those arrangements have been adapted to ensure that the principles of public sector audit are maintained.

¹ <http://www.frc.org.uk/apb/>

² <http://www.frc.org.uk/>

- 1.14. The proposed new local audit regime would continue to provide Parliament with the assurances it needs on public spending. The National Audit Office would prepare the Codes of audit practice, which prescribe the way in which auditors are to carry out their functions, and which would continue to be approved by Parliament, and associated guidance. The National Audit Office would also continue to audit Government departments providing funding to local public bodies and will continue to receive Whole of Government Accounts returns. Registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies, under the supervision of the Financial Reporting Council (as this builds on their existing role in the regulation of private sector auditors) and its operating bodies.
- 1.15. Principal local authorities would appoint their own auditors, with decisions made by full council, taking into account advice from an independently chaired audit committee. Different arrangements would apply for some other local public bodies and these are explained in section 3.
- 1.16. Localism and decentralisation can only work if central government is prepared to trust local bodies, communities and citizens. We have aimed to design a local audit system which provides the rigour needed for Parliament, but allows local public bodies to take more responsibility in the way they procure audit services. These changes go hand in hand with the Government's actions to increase transparency in local government and will help enable local people and local organisations to hold their local public bodies to account for the way that their money is spent.

Design principles

- 1.17. In proposing a new framework for local public audit, we have followed a set of design principles:
- **localism and decentralisation** – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies
 - **transparency** – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
 - **lower audit fees** – achieving a reduction in the overall cost of audit
 - **high standards of auditing** – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit
- 1.18. These principles are not wholly independent. For instance, there is a clear relationship between the quality and scope of the audit and the level of audit fees. We wish to find the right balance to ensure an effective, robust, quality audit for local bodies while keeping fees as low as possible.

1.19. We have also had regard to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. They are:

- **Independence of public sector auditors from the organisations being audited.** Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors; the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.
- **The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money.** Public audit involves more than an opinion on accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to corporate governance arrangements of public bodies.
- **The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.** To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.

Q1: Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

What this consultation covers

1.20. This consultation focuses on the audit of local public bodies that currently have auditors appointed by the Audit Commission. It sets out, in sections 2 and 3, our proposals for the regulation and commissioning of audit, including the various elements of the new regulatory framework and the role local public bodies will have when appointing an auditor. Section 4 covers the scope of local public audit and the work of auditors, while section 5 deals with the way that the proposed framework would apply to smaller local bodies, such as parish councils.

LOCAL BODIES COVERED BY THIS CONSULTATION

1.21. This document sets out proposals for a new framework for most bodies currently audited by the Audit Commission and listed in appendix B.

1.22. However, the Police Reform and Social Responsibility Bill, which is currently before Parliament, aims to make a number of significant reforms to the policing system. This includes provisions to abolish police authorities (excluding the City of London) and replace them with directly elected Police and Crime Commissioners for each police force outside London, and the Mayor's Office for Policing and Crime for the Metropolitan Police.

- 1.23. Police and Crime Commissioners (and Mayor's Office for Policing and Crime) will be responsible for holding the Chief Constable (and Commissioner for London) of their police force to account for the full range of their responsibilities.
- 1.24. Probation services, which used to be part of Local Government's remit, have been a responsibility of central government since consolidation into the Home Office in 2000-01. The financial results of probation trusts have been consolidated into the National Offender Management Service accounts, which are audited by the Comptroller and Auditor General. We believe, therefore, that probation trusts should in future be audited by the Comptroller and Auditor General.

Q2: Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?

- 1.25. Pension funds are not statutorily subject to a full audit separate from that of the local authority. However, the Audit Commission has used its regulatory powers to require pension funds to be audited separately. We propose to include pension funds on the list of local public bodies subject to the new local audit framework.
- 1.26. We consider that Joint Committees should remain subject to audit, but it will be for the constituent authorities making up the Joint Committee to decide whether the Joint Committee is audited separately or as part of one of the authorities' own audits.
- 1.27. The abolition of the Audit Commission will also impact on the audit arrangements for local health bodies. Currently, the Strategic Health Authorities, Primary Care Trusts and NHS Trusts are audited under the Audit Commission framework. The Health and Social Care Bill, currently before Parliament, aims to abolish Strategic Health Authorities and Primary Care Trusts and provides for all NHS Trusts to become Foundation Trusts by 2014. The Department of Health is considering the governance and accountability arrangements for the new health landscape and these will help determine the appropriate audit arrangements. The local public bodies referred to in this consultation paper do not therefore include local health bodies. However, health bodies will be included in draft legislation on the proposals for the new local audit framework. The Department of Health will publish a paper summarising its proposals at the same time.

Audit Commission functions excluded from this consultation

- 1.28. There are a number of functions that are or have been carried out by the Audit Commission that are not considered as part of this consultation. The Secretary of State has announced that the Commission's inspection and research activities would cease. In general, local government and others outside of central Government are well-placed to decide when and where research should

be undertaken. In addition, the National Audit Office, following confirmation of its existing powers, will be able, when reporting to Parliament on the activities of central Government departments, to examine the impact of policies administered by local bodies. As well as contributing to parliamentary accountability, this will provide useful insights for local communities by drawing out examples of what works successfully in different circumstances and how barriers to good value for money are being overcome.

1.29. It will also be possible for an auditor to undertake value for money studies connected to audit work, with the agreement of the audited body. In addition, the National Audit Office would be able to identify and report on wider issues of concern about local bodies' use of resources or common themes of interest, should such issues be identified by the audit process. They could do this, in part, by drawing upon the work of local auditors.

1.30. Other functions, such as grant certification, operation of the National Fraud Initiative and the auditor function of reporting on Whole of Government Accounts returns will continue in some form, but are not considered in detail here. These issues will be covered in the forthcoming draft bill and accompanying consultation.

1.31. The Audit Commission appoints auditors to all local public bodies in England. It appoints its own auditors from the in-house practice to 70 per cent of local public bodies, with the remaining 30 per cent of auditors employed by accountancy firms under contract to the Commission. We are considering a range of options for transferring the Commission's in-house audit practice into the private sector. We expect that an announcement on our preferred option for privatisation of the Commission's audit work will be made ahead of publication of a draft audit bill.

Timing and how to get involved

1.32. This initial consultation will run for 12 weeks with responses invited by 30 June. Following this period, we will consider the responses we receive and will publish a summary and a Government response.

1.33. We then propose to publish draft legislation on the proposals for a new local audit framework which will be subject to pre-legislative scrutiny by Parliament and other interested parties. As part of this process, we will consult again on our proposals, and will publish a consultation stage impact assessment. Following pre-legislative scrutiny, we will prepare for final legislation to be introduced at the earliest opportunity.

Costs

1.34. We are developing an impact assessment which will be published alongside the draft Bill. We would therefore be interested in your views on the costs and benefits of the proposals and options set out in this consultation. This evidence will inform the draft bill proposals and help refine the impact assessment.

Who are we consulting?

1.35. We would welcome comments from organisations affected by the change to the audit of local public bodies, and any other bodies or individuals. This document is available on the Department for Communities and Local Government website (www.communities.gov.uk) and we will be drawing it to the attention of all public bodies currently audited by the Audit Commission, to professional bodies and those involved in regulating audit in England. It is open to all to make representations on the proposed new system of local audit and all submissions will be carefully considered.

How to respond

1.36. Your response must be received by 30 June 2011 to:

foia@communities.gsi.gov.uk

Or to:

Luke Scofield
The Department for Communities and Local Government
Zone 3/G6
Eland House
Bressenden Place
London SW1E 5DU

1.37. Please use the title 'Response to future of local audit consultation'.

1.38. It would be helpful if you could make clear in your response whether you represent an organisation or group, and in what capacity you are responding.

Publication of responses – confidentiality and data protection

1.39. Information provided in response to this consultation, including personal information, may be published, or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.40. If you want any information you provide to be treated as confidential you should be aware that under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply, and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

1.41. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer

generated by your IT system will not, of itself, be regarded as binding on the Department.

- 1.42. The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Section 2

2. Regulation of local public audit

2.1. Audit systems in the UK for both the public and private sector follow the International Standards on Auditing. These include the following common elements of regulation:

- **standards** – setting out what comprises the audit and the quality standards that apply
- **registration** – determining who can audit and ensuring that auditors have the necessary skills, expertise and qualifications in order that there can be confidence in the auditors' work
- **monitoring and enforcement** – ensuring that standards are met and that appropriate action is taken in the case of failure

2.2. The Government believes that having a specific regulator for the local government and the local health sectors in England - less than 10% of the audit market – risks duplication. We therefore consider that, to the extent possible, there should be a consistent regulatory regime for audit, covering the private sector and the local government and local health sectors. This local public audit regime should be focused on local accountability, in the way that the commercial sector is tailored to accountability to shareholders.

Standards and codes of practice

CURRENT SYSTEM

2.3. Under the current system the Audit Commission sets audit standards through Codes of audit practice for the local government and health sectors, which are approved by Parliament. These Codes build on the ethical, auditing and other standards issued by the Auditing Practices Board and are therefore broadly consistent with audit standards applied in other sectors.

2.4. However, the Commission's Codes contain additional standards to reflect the principles of public audit and its wider scope, particularly in terms of regularity and propriety and value for money. They specify the approach to audit for areas not already covered by professional audit standards (such as the 'value for money' conclusion). The Commission also publishes guidance and statements of responsibilities of auditors and audited bodies.

OTHER SECTORS

2.5. Standards for the audit of companies are set by the Auditing Practices Board (part of the Financial Reporting Council), which sets standards and issues guidance for the performance of external audit and in relation to the independence, objectivity and integrity of external auditors. The Auditing Practices Board is also responsible for setting ethical standards for auditors in the private and public sectors.

The Audit Commission's Codes of audit practice

The Commission has a statutory duty to prepare, keep under review and publish statutory Codes of audit practice. There are currently two Codes: one for local government bodies and one for health bodies. The Codes, which are approved by Parliament and must be reviewed at least every five years, set out best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The latest versions of the Codes of practice were published in 2010.

The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime. Each Code:

- sets out the general principles to be followed by auditors in delivering their objectives
- outlines auditors' responsibilities regarding the audit of financial statements and use of resources and
- sets out the range of outputs through which the results of audit are reported

OUR PROPOSALS

2.6. Under our proposals, auditors of local public bodies would continue to follow the auditing and ethical standards set by the Auditing Practices Board. We have considered which body would be best placed to produce the audit Codes of practice and supporting guidance. While this is a role that could possibly be undertaken by the Financial Reporting Council or the profession, we believe that the National Audit Office, given its role in providing Parliament with assurance on public spending, would be best placed to develop and maintain the audit Codes, which would continue to be approved by Parliament. The National Audit Office would also produce any supporting guidance.

Q3: Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Registration of auditors

CURRENT SYSTEM

2.7. The Audit Commission Act 1998 stipulates that for an individual or a firm to be appointed as an auditor, the person/s conducting the audit must be a member of one of the specified professional bodies and has such qualifications as may be approved by the Secretary of State (none have been so approved). The Audit Commission regulates the quality of the work of auditors by setting minimum qualifications a public sector auditor must have in conjunction with standards set by the professional bodies for membership.

OTHER SECTORS

- 2.8. As part of the statutory framework for the audit of companies under the Companies Act 2006, the Professional Oversight Board (part of the Financial Reporting Council), essentially acts as the main regulator, with statutory powers delegated to it by Government for the recognition and supervision of those professional accountancy bodies responsible for supervising the work of auditors or offering an audit qualification – recognised qualifying body and recognised supervisory body e.g. Institute of Chartered Accountants in England and Wales.
- 2.9. Recognised supervisory bodies are responsible for putting rules and arrangements in place which their members must fulfil before they can be registered auditors, both as regards eligibility for appointment as a statutory auditor and the conduct of statutory audit work. A list of recognised supervisory bodies and recognised qualifying bodies for the purposes of the Companies Act is at annex C. The Institute of Chartered Accountants for Scotland maintains the list of registered auditors for the whole of the UK on behalf of the recognised supervisory bodies.
- 2.10. People with responsibility for company audit work at the firm must also hold a recognised qualification, awarded by a recognised qualifying body.
- 2.11. Looking elsewhere, in Finland, auditors who are eligible to audit municipal authorities are included in a register of eligible auditors maintained by the Finnish Board of Chartered Public Finance Auditing. In Italy, auditors who can carry out local public audit are included on a register of auditors managed by the Ministry of Justice.

OUR PROPOSALS

- 2.12. We propose that, as under the Companies Act 2006 (“the Companies Act”), an overall regulator would have responsibility for authorising professional accountancy bodies to act as recognised supervisory bodies for local public audit. Any such body would need to comply with the statutory requirements set out in the proposed primary legislation. It would have the roles of registration, monitoring, and discipline in relation to local public audit.
- 2.13. The Financial Reporting Council is the regulator for Companies Act audit and we propose that it takes on a similar role for the local public audit regulatory regime in England, provided that it can assure the Government that it has both the resources and the expertise to undertake the role, and wishes to do so. It is likely that setting up a separate regulator for local public audit would lead to duplication of work as entirely new systems and procedures would need to be developed.
- 2.14. Recognised supervisory bodies for local public audit could include supervisory bodies recognised under the Companies Act 2006 and any other bodies with sufficient expertise and capacity.
- 2.15. A recognised supervisory body for local public audit could have rules and practices covering:

- the eligibility of firms to be appointed as local public auditors and
- the qualifications, experience and other criteria individuals must reach before being permitted to lead a local public audit engagement and/or sign off an audit report

2.16. We propose to set out, in primary legislation, certain high level criteria that specify that the auditor must be:

- a member of a recognised supervisory body and
- eligible for appointment under the rules of that body

2.17. The legislation will include provisions enabling the supervisory body to develop appropriate detailed rules and practices on other criteria.

2.18. The eligibility criteria will be based on those for the audit of companies as we would like to ensure enough flexibility in the criteria to enable new firms to enter the local public audit market. However, there will need to be additional criteria to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body.

2.19. We propose that all eligible local public auditors would be placed on a public register. This register could be kept by the recognised supervisory bodies for local public audit, or it could be kept by another body.

Q4: Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

Q6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

Q7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Monitoring and enforcement

CURRENT SYSTEM

2.20. The Audit Commission currently monitors the quality of auditors' performance through its annual quality review programme. The Audit Inspection Unit of the Financial Reporting Council reviews the quality of the financial statements audits carried out by the Commission's own audit practice and by private firms on behalf of the Commission.

OTHER SECTORS

2.21. Under the Companies Act, the recognised supervisory bodies are responsible for monitoring the quality of the statutory audits undertaken by their members and for disciplining their members where this is appropriate.

2.22. Some companies that are of public significance because of the nature of their business, their size, or their number of employees can be designated as "public interest entities". In the case of these bodies, the Professional Oversight Board has an additional role in monitoring the quality of the auditing function and the Accountancy and Actuarial Disciplinary Board has a role in investigating significant public interest disciplinary cases and imposing sanctions to those found guilty of misconduct.

OUR PROPOSALS

2.23. We propose that recognised supervisory bodies for local public audit would have responsibility for monitoring the quality of audits undertaken by their members, as they do in the private sector. This work would fall under the monitoring units of these bodies, and would include:

- reviews of individual audit engagements
- reviews of the policies, procedures and internal controls of those firms licensed to carry out the public sector audits
- reporting on the quality of audit to the registration body

2.24. The recognised supervisory bodies for local public audit would investigate complaints or disciplinary cases, as well as issues identified during their monitoring process. They would also be able to stop a firm being eligible for appointment as a statutory local public auditor and remove them from the register of eligible local public auditors.

2.25. We are considering whether the overall regulator (i.e. the body that authorises the recognised supervisory bodies) should have a role in assuring the quality, and undertaking independent investigation of the audit of local public bodies that might be considered analogous to public interest entities for the public sector. The overall regulator would have powers to investigate and discipline in these cases. The process undertaken would be similar to that above, but would provide an additional level of assurance in respect of those bodies.

However, the costs that would fall on the Financial Reporting Council from undertaking this role would be passed on to the audit firms and therefore could be reflected in fees.

Q8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

Q9: There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

Q10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Section 3

3. Commissioning local public audit services

- 3.1. The Government believes that a localist approach, without an independent central body having a role in appointing an auditor, is an important element of driving accountability to local people rather than to central government. However, maintaining the independence of the auditor in the new system is central to the principles of public audit. Our proposals therefore need to include measures to safeguard the independence of the auditor.

Duty to appoint an auditor

CURRENT SYSTEM

- 3.2. Under the current system, all auditors of local public bodies included in Schedule 2 of the Audit Commission Act are appointed by the Audit Commission. Before making appointments of auditors to local government bodies, the Commission has a statutory duty to consult the body. The Commission has voluntarily extended this practice to health bodies.

OTHER SECTORS

- 3.3. Commissioning takes different forms in different sectors. Under the Companies Act the annual general meeting must agree a resolution on the appointment of the auditor, although this will be based on a recommendation from directors and input from an audit committee.
- 3.4. Looking elsewhere, it is clear that there are different systems for commissioning audit services. However, in the USA local authorities procure their own auditors: an audit committee often appoints 'internal auditors' for their local authority, who then procure the external auditor.

OUR PROPOSALS

- 3.5. We propose that all larger local public bodies (those with income/expenditure over £6.5m) will be under a duty to appoint an auditor. The auditor would need to be on the register of local public statutory auditors, which should help to ensure that the quality of auditors is maintained.
- 3.6. It is equally important as it is in other sectors that those to whom audit is directed have influence but that the independence of the auditor remains paramount. Therefore, for larger public bodies, we propose an approach whereby appointment is made by full council or equivalent, on the advice of an audit committee with opportunities for the electorate to make an input.
- 3.7. We consider that local public bodies will wish to co-operate to ensure that there is wide competition for external audit contracts, and that local public bodies will want to work together to procure an external auditor. We propose to ensure that legislation provides for both joint procurement and joint audit committees.

Q11: Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

- 3.8. Lord Sharman, in his report, *Holding to Account: the Review of Audit and Accountability in Central Government*, was clear that, to maintain confidence, auditors must be independent to avoid improper influence and allow work to be carried out freely. Independence includes the way auditors are appointed. We consider that, as part of a new local audit regime, each larger local public body should have an audit committee with a majority of members independent of the local public body and, with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
- 3.9. A possible structure is set out below. However, there could be alternative arrangements, for example:
- a) only the chair and perhaps a minority of members are independent of the local public body
 - b) a chair and a majority of members independent of the local public body, as described below
 - c) as for (b), but with independent selection of the members independent of the local authorities
- 3.10. We are keen to ensure that local public bodies have flexibility in the way that they constitute and run audit committees. But we need to balance this with ensuring that the minimum requirements for an audit committee set out in legislation provide for an independent audit appointment. We set out below a possible structure and role for the audit committee, some of which may be prescribed in legislation and some of which we would put forward as best practice.

Structure of audit committees

We envisage that in the new system, an audit committee could be structured in the following way:

- The chair should be independent of the local public body. The vice-chair would also be independent, to allow for the possible absence of the chair.
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).
- There would be a majority of members of the committee who were independent of the local public body.

Independent members of the committee

When choosing an independent member of the committee, a person can only be considered for the position if:

- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
- is not a member nor an officer of that or any other relevant authority
- is not a relative nor a close friend of a member or an officer of the body/authority
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate

Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

Q13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Role of the Audit Committee

CURRENT SYSTEM

3.11. As auditors are currently appointed by the Audit Commission there is no role for an audit committee in the appointment of auditors, although the Audit Commission always consults local public bodies before it confirms an audit appointment. However, some local public bodies do have Audit Committees (some of which are independent) with roles in relation to both internal and external audit.

3.12. Health bodies currently have their own form of audit committees following the Financial Reporting Council best practice guidance, comprising of independently appointed non-executive directors governed by their own rules and requirements.

OTHER SECTORS

3.13. The Financial Reporting Council currently produces guidance for the establishment of audit committees for companies, stating that they should be made up of at least three, or in the case of smaller companies two, independent non-executive directors.

3.14. The main role and responsibilities of a company's audit committee are set out in written terms of reference and can include a number of roles, including:

- providing advice to the board in relation to the appointment of external auditors
- approving the remuneration and terms of engagement of the external auditor
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process
- developing and implementing policy on the engagement of the external auditor to supply non-audit services

3.15. Looking elsewhere, audit committees are statutory bodies in each municipality in Finland. Their remit includes preparing the choice and appointment of external auditors. In Canada, the local authority's audit committee also commissions audit services.

OUR PROPOSALS

3.16. It is likely that we would want to specify in legislation some responsibilities that the audit committee should have in relation to the engagement of an auditor and monitoring the independence and quality of the external audit. However, we would not wish to limit the scope of an audit committee so that a local body had no flexibility in designing its role.

3.17. The expanded role of the audit committee would include the provision of advice and guidance to the full council or equivalent (the audit committee may wish to have regard to advice from the section 151 officer) on appropriate criteria for engaging an auditor and advice as to how these criteria could be weighted. The audit committee would be given copies of the bids to evaluate in order that they

may advise the full council or equivalent on the selection process and may, if they wish, indicate which auditor, in their view, presents the best choice.

- 3.18. The full council or equivalent would need to have regard to the advice of the audit committee but would not need to follow its advice. The full council or equivalent would be responsible for selecting an auditor and engaging that auditor on a contractual basis.
- 3.19. Advice provided by the audit committee to the full council or equivalent would be published, although consideration will need to be given to the treatment of commercially confidential material.
- 3.20. If the full council or equivalent did not follow the advice of the audit committee, then it would need to publish on its website a statement from the audit committee explaining its advice and a statement from the full council or equivalent setting out the reasons why the council or equivalent has taken a different position.

Option 1

- 3.21. We could specify only one mandatory duty for the local public body's audit committee, i.e. to provide advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.
- 3.22. It would then be left up to the local public body and the audit committee to decide whether the audit committee should have a wider role in other issues, e.g. setting a policy on the provision of non-audit services by the statutory auditor or reviewing the relationship between the auditor and the audited body.
- 3.23. This option would ensure that the audit committee provided advice to the local public body at crucial moments, but would allow the local public body and the audit committee flexibility to decide on any other functions it may carry out. However, if only the minimum was followed, this may not provide an adequate check on ongoing independence through the auditor's term.

Option 2

- 3.24. We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:
- providing advice to the full council on the procurement and selection of their external auditor
 - setting a policy on the provision of non-audit work by the statutory auditor
 - overseeing issues around the possible resignation or removal of the auditor
 - seeking assurances that action is being taken on issues identified at audit
 - considering auditors' reports
 - ensuring that there is an effective relationship between internal and external audit
 - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
 - providing advice to the full council on the quality of service they are receiving

- reporting annually to the full council on its activities for the previous year

3.25. This option would provide more assurance about the independence of the relationship between the audited body and its auditor, it would also ensure that the audit committee had a wider role in reviewing the financial arrangements of the local public body.

Q15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Q16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

Q17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Q18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Involvement of the public in the appointment of an auditor

CURRENT SYSTEM

3.26. There is no involvement of the public in the appointment of auditors by the Audit Commission to audited bodies.

OUR PROPOSALS

3.27. We envisage that the appointment of an auditor by the local public body should be as transparent as possible so that local people are able to hold their local public bodies to account for the appointment.

Pre-appointment

3.28. The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms. The audit committee would consider these representations when providing advice to the full council or equivalent.

Post - appointment

3.29. The public would be able to make representations at any time to the local public body's audit committee. If a representation identified a significant, or potentially significant, issue relating to the auditor, then the audit committee would be able to provide advice to the audited body on that issue and investigate as appropriate. If the issue identified was material to the ongoing work of the auditor (such as an undisclosed material conflict of interest) then the audited body would need to take such steps as appeared necessary, in accordance with the terms of the contract with the auditor, to address that issue. We may also wish to specify in legislation some statutory requirements relating to conflicts of interest.

Q19: Is this a proportionate approach to public involvement in the selection and work of auditors?

Applicability to other sectors

3.30. The policy of audit committees acting as a safeguard to independent appointment is applicable to all larger local public bodies covered by this framework. The approach may differ depending on the constitution and governance arrangements of those bodies.

3.31. For Police and Crime Commissioners (and Mayor's Office for Policing and Crime) and Chief Constables (and Commissioner for London) we are considering whether the Police and Crime Panel should have a role similar to that of the audit committee. Arrangements for the audit of these policing bodies will be finalised once the Police Reform and Social Responsibility Bill has completed its passage.

Q20: How can this process be adapted for bodies without elected members?

Failure to appoint an auditor

CURRENT SYSTEM

3.32. As the Audit Commission is responsible for appointing the auditors for all audited bodies specified in the Audit Commission Act 1998, the situation where an audited body fails to appoint an auditor does not arise.

OTHER SECTORS

3.33. The Companies Act 2006 provides a default power for the Secretary of State, so that if a private company fails to appoint an auditor or auditors, the Secretary of State may appoint one or more persons to fill the vacancy. If the company fails to make the necessary appointment, the company is required to give notice to the Secretary of State that his power has become exercisable and if the

company fails to give this notice then the company has committed an offence and can be liable for a fine.

OUR PROPOSALS

3.34. The audited body would be under a duty to appoint an auditor. However, there could be some instances under the new system where a body does not fulfil this duty.

Option 1

3.35. In these circumstances we propose that the Secretary of State would be able to direct the local public body to appoint an auditor.

Option 2

3.36. Alternatively, where a local public body does not fulfil its duty to appoint an auditor the Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.

Q21: Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

3.37. It would clearly be against our design principles for the new local audit framework for the Secretary of State to make the auditor appointment for local public bodies. However, some form of assurance will be required that local public bodies have fulfilled their duty to appoint an auditor.

Q22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

3.38. Given that we envisage that the Recognised Supervisory Bodies will hold the register of eligible local public auditors there is an argument that they should be notified if a local public body has appointed or failed to appoint an auditor. However, this could involve a significant cost.

3.39. As the Secretary of State would be able to direct the local public body to appoint an auditor, or could be provided with the power to make the auditor appointment where a local public body does not fulfil its duty to appoint an auditor, an alternative option would be for the local public body to notify the appropriate government department, or a body that the government department specifies, of the auditor appointment. The cost of doing this could be met by the appropriate department, and would provide an effective route for the Secretary of State to exercise his powers to direct the local public body to appoint an auditor, or to make the auditor appointment where the body did not fulfil its duty to appoint an auditor.

Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

Rotation of audit firms and audit staff

CURRENT SYSTEM

3.40. The Auditing Practices Board's ethical standards, which apply to the audit of both private and public entities, require an audit firm to establish policies and procedures to monitor the length of time that audit engagement partners and other key staff serve as members of the engagement team for each audit. These procedures are in place to help ensure the independence and objectivity of auditors.

3.41. The Audit Commission appoints audit firms or its own staff for an initial period of five years. The audit engagement partner can then be appointed for an additional period of up to two years in accordance with the Auditing Practices Board's Ethical Standards (i.e. a maximum of seven years, provided there are no threats to the auditor's independence). The audit manager (the second in command to the audit engagement partner) can be appointed for a maximum of ten years. After this period individuals should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

OTHER SYSTEMS

3.42. In the case of listed companies, the audit firm must have policies and procedures so that:

- no-one shall act as audit engagement partner for more than seven years and
- anyone who has acted as the audit engagement partner for a particular entity for a period of seven years, shall not subsequently participate in the audit engagement with that entity until a further period of five years has elapsed

3.43. The audit committee of a company assesses the independence and objectivity of the external auditor annually, taking into consideration regulatory and professional requirements. This assessment involves a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.

OUR PROPOSALS

3.44. We envisage that the new audit framework would be in line with the current ethical standards regarding the rotation of staff within the audit firm.

3.45. The audited body's audit committee would have a role in monitoring the independence and objectivity of the body's external auditor.

- 3.46. In relation to the rotation of the firm, an audit firm would be reappointed annually by the full council on the advice of the audit committee (who may want to provide advice on the quality of service received in the previous year) but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive five year period, following competition.
- 3.47. To preserve independence, we propose that the audited body would need to procure a different audit firm at the end of the second five year period. This will help to ensure that in carrying out their responsibilities auditors are not influenced by their desire to secure re-appointment.

Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Q25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Q26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Resignation or removal of an auditor

CURRENT SYSTEM

- 3.48. In the current situation there is not a direct contractual relationship between the auditor and the audited body - the relationship is with the Audit Commission. It is therefore not possible for the audited body to remove the auditor and the auditor does not need to resign because of issues arising with the audit.
- 3.49. In the event that there was a breakdown in the relationship between the auditor and audited body the Audit Commission can consider rotating suppliers.
- 3.50. The audit engagement partner or audit team may change during the appointment and the Audit Commission can and does rotate between firms and its in-house practice undertaking the audit, including if the audited body requests it.

OTHER SECTORS

Resignation

3.51. In the companies sector, if an auditor ceases for any reason to hold office, he must deposit a statement at the company's registered office which will usually set out the circumstances connected with his ceasing to hold office. If the circumstances are set out in the statement (in the case of a quoted company), the company must send a copy of the statement to all members of the company unless it makes a successful application to the court to stop this.

3.52. If (in the case of an unquoted company) the circumstances are not set out in the statement, the auditor must deposit a statement with the company to that effect but the company does not have to circulate this statement to its members.

3.53. When an external auditor resigns, the audit committee of the company will investigate the issues giving rise to such resignation and consider whether any action is required.

Removal

3.54. The members of a company may remove an auditor from office at any time during their term of office. They, or the directors, must give 28 days notice of their intention to put to a general meeting a resolution to remove the auditor. The company must send a copy of the notice to the auditor, who then sends it to the company's members. The auditor may speak at the meeting where the resolution is to be considered. Although a company may remove an auditor from office at any time, the auditor may be entitled to compensation or damages for termination of appointment.

OUR PROPOSALS

3.55. We envisage that a body might wish to remove its auditor, or an auditor might wish to resign, only in exceptional circumstances, for example, an auditor being in breach of the ethical standards, or a complete breakdown in the relationship between the auditor and audited body.

3.56. However, we recognise the importance of having stringent safeguards in place for the resignation and removal of an auditor to protect the independence of the auditor and the quality of the audit. These safeguards would broadly mirror those in the Companies Act, but would be adapted to reflect the principles of public audit. The process would be designed to ensure that auditors are not removed, or do not resign, without serious consideration.

Resignation

3.57. We envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the auditor still wished to resign he should give 28 days written notice of his intention to the audit committee and the audited body, setting out his intention to resign. The audited body should then make a written response, which it should send with the auditor's written notice, to its members and the audit committee. The auditor will then be required to deposit a statement at the audited body's main office and with the audit committee, which should be published on its website. The statement

would set out the circumstances connected with the resignation of the office that are relevant to the business of the audited body.

3.58. The audited body would need to notify the body responsible for maintaining the register of appointed auditors, and the auditor will need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the resignation and considering whether any action is required.

Removal

3.59. Again, we envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the audited body still wished to remove its auditor, it should give 28 days written notice of its intention to the audit committee and to the auditor. The audited body should put to a public meeting, or full council meeting, a resolution to remove the auditor. The audited body would also send a copy of this notice to the auditor.

3.60. The auditor would then have the right to make a written response, which the body would need to send to its members and the audit committee, and to speak at the meeting where the resolution is to be considered. A representative from the audit committee should also be able to speak at the meeting. The auditor would be required to deposit a statement at the audited body's main office and with the audit committee, which would need to be published on its website. This statement would set out the circumstances connected with the cessation of their office that are relevant to the business of the audited body.

3.61. The audited body would need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the removal and considering whether any action is required.

3.62. A right of access to the previous auditor's audit working papers (from the previous year and/or current) should be provided to incoming auditors in cases of resignation or removal or any other instances where the audit firm changes. This right should extend to all aspects of the previous auditor's responsibilities and not just to work on the audit of the financial statements.

Q27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Auditor liability

3.63. In the private sector, auditors are concerned about the consequences of the risks of litigation, as a result of actual or perceived failing by auditors. These concerns have been fuelled by legal judgments about the extent of auditors' duty of care to third parties, such as potential investors and the banks. They have increasingly caused auditors to caveat their audit opinions by explicitly limiting their duty of care and by seeking to limit their liability. Case law has established that the duty of care of auditors appointed by the Commission is to the audited body itself and not to third parties. Public authorities can sue their auditor for breach of duty.

CURRENT SYSTEM

3.64. There are particular issues in the public sector where auditors may exercise special powers. The Audit Commission currently indemnifies auditors for the costs they incur where they are engaged in litigation arising from the exercise of such powers. This ensures that auditors are able to exercise their functions with the certainty that their costs will be met.

OTHER SECTORS

3.65. In the companies sector, the Companies Act provides that general provisions that protect auditors from liability for negligence, default, breach of duty or breach of trust in relation to the company, or provide an indemnity against liability are void, but:

- does not prevent a company from indemnifying an auditor against any costs incurred by him in defending proceedings in which judgment is given in his favour or in the granting of relief by the court in the case of honest and reasonable conduct
- allows for a "liability limitation agreement" to be put in place if it is authorised by the members of the company, provided it complies with the content permitted in the Companies Act

OUR PROPOSALS

3.66. In the absence of a central body providing indemnity to audit firms, it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual negotiations. A legislative framework, similar to that in the companies sector, could set out the process for setting and agreeing liability limitation agreements. Without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.

Q28: Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Section 4

4. Scope of audit and the work of auditors

4.1. In this chapter, we look at the scope of the audit and the options for the elements of local public bodies' finance and the arrangements that auditors should assess. The duty for the auditor to issue a report in the public interest is also considered. This section asks whether auditors should be able to carry out additional, non-audit, work for the audited body, and considers the various safeguards that could be introduced to ensure that auditor independence is not compromised.

Scope of local public audit

4.2. The starting point is the principles of public audit, in particular the wide scope of the audit covering the audit of financial statements, regularity and propriety and value for money.

CURRENT SYSTEM

4.3. Public sector accounting in the UK has recently moved to adopt International Financial Reporting Standards adapted as necessary for the public sector (for local government audits from 2010-11).

4.4. Currently, the auditor of larger local public bodies is required to:

- give an opinion on whether the accounting statements give a true and fair view of the audited body's financial position and of its income and expenditure
- provide a conclusion as to whether the body has proper arrangements for securing value for money, having regard to specified criteria (such as financial resilience and to regularity and propriety) and in accordance with guidance issued by the Commission
- review and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement and the remuneration report and
- (for local government) review and report on the Whole of Government Accounts return

4.5. Smaller local public bodies are currently subject to a limited assurance regime. We believe that it is important for smaller bodies to continue to be dealt with proportionately under the new framework and discuss this in more detail at Section 5.

OTHER SECTORS

Companies

4.6. The scope of audit for companies is based around the financial statements produced by the company and a report that the directors are required to produce which must describe the company's principal activities, a review of the business and an indication of future developments.

4.7. Statutory auditors of companies include in their report, statements as to whether, in their opinion:

- the accounts have been prepared in accordance with the Companies Act 2006
- the accounts give a “true and fair “ view of the company’s financial statements
- the director’s report is consistent with the accounts
- the remuneration report is properly prepared

Charities

4.8. Any charity which has income above the audit threshold in the financial year must have an audit of its financial statements undertaken by a registered auditor. This is in line with the treatment of companies.

4.9. The Charities Act 1993 also requires all registered charities to prepare a Trustees’ Annual Report. The length of the report and the amount of detail included in it can be in proportion to the charity’s size so for small charities it can be a very simple report.

Central government

4.10. The Comptroller and Auditor General, with the support of the National Audit Office, is responsible for auditing the financial statements of all central Government departments, executive agencies and a wide range of other public sector bodies.

4.11. When certifying the accounts of central government departments, the Comptroller and Auditor General states whether, in his opinion:

- the financial statements give a “true and fair” view of the financial position of the body
- the financial statements have been properly prepared in accordance with underpinning legislation
- in all material respects the transactions recorded in the financial statements are in accordance with Parliamentary or other authority (regularity)
- information given in the Management Commentary/Annual Report is consistent with the financial statements
- the audited part of the Remuneration Report has been properly prepared in accordance with relevant guidance

4.12. The Comptroller and Auditor General also has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

OUR PROPOSALS

4.13. When looking at the future scope of audit for local public bodies we have considered whether we should move to a more transparent model, such as that followed by companies and charities which must produce a director or trustee’s report. Central Government departments are also required to prepare an Annual Report along similar lines. However, we recognise that public money

must be accounted for in a certain way, including assuring regularity and propriety and with the necessary focus on value for money. With this in mind, for larger public bodies we have identified the following three options to deliver effective audit that conforms to the principles of public audit.

Option 1

4.14. The scope of audit could be reduced to be more in line with that for companies, with no assessment of value for money. The auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure and
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.15. This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.

Option 2

4.16. As under the current system, the auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure; and
- provide a **conclusion** as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.17. This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money.

Option 3

4.18. New arrangements could provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an **opinion** on the financial statements, but would provide **conclusions** on:

- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime

- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

4.19. We will need to consider carefully how a stronger value for money element to the audit would fit with other sectors, such as policing, who already have alternative systems for examining and reporting value for money publicly.

4.20. We believe that, compared to option 1 and 2, option 3 could lead to greater transparency for local citizens, and would help deliver the wide scope of public audit. It would also require a separate conclusion on regularity and propriety and financial resilience, rather than having regard to these aspects within a conclusion on value for money (as in option 2). However, the volume of work undertaken by the auditor would be significantly greater than for option 1. It is also possible that auditors would have difficulties in reaching a robust conclusion on value for money, regularity and propriety. We expect that reaching a conclusion on the achievement for value for money would involve more work for auditors, particularly in the case of complex organisations such as principal local authorities.

Option 4

4.21. Local public spending should be transparent so that citizens can hold bodies to account. Companies are required, by law, to produce and publish an annual report, including the principal activities of the company during the year, and a business review which includes risks and uncertainties. Most public bodies also produce such a report, although local authorities are not currently required to do so.

4.22. Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.

4.23. The auditor would be required to:

- give an opinion on the financial statements
- review the audited body's annual report and
- provide reasonable assurance on the annual report

4.24. The annual report could be written in an accessible way and would be published. This option could therefore substantially increase the transparency of the local public bodies, compared to options 1 and 2. Citizens' increased knowledge of the local public body's financial performance could help drive greater local accountability. We would need to consider whether producing an annual report in an appropriate format would be a new burden for local authorities that do not currently produce an annual report in an appropriate format.

4.25. Another possible benefit of this option, is that it brings the format of audit for local public bodies (financial statements and reviewing a report) more in-line with that of other sectors.

Q29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options?

Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

Q31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

Public interest reporting

CURRENT SYSTEM

4.26. Under Section 8 of the Audit Commission Act 1998, the auditor is currently required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public. The auditor can also make written recommendations to the audited body as part of this report. The audited body has a corresponding duty to consider and respond to these reports and any recommendations that might be made. The costs of the report fall on the audited body.

4.27. Appointed auditors have issued 131 public interest reports since 2002, of which 13 have related to principal local authorities, 85 to parish councils, 30 to health bodies and one each to a passenger transport authority (now an integrated transport authority), a passenger transport executive, and an internal drainage board.

4.28. In addition to the auditor's duties to report in the public interest, they also have the power to make a recommendation requiring a public response and can issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

OTHER SECTORS

4.29. Although public interest reporting is a consequence of the principles of public audit, there are some similarities with processes in place in other sectors.

4.30. The auditor of a regulated entity generally has special reporting responsibilities in addition to the responsibility to report on financial statements. One of these special reporting responsibilities is a statutory duty to report certain information, relevant to the regulators' functions that come to the auditor's attention in the course of the audit work. This form of report is derivative in nature and is initiated by the auditor on discovery of a reportable matter.

OUR PROPOSALS

4.31. We consider it is important that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them. This is consistent with the design principles of localism and transparency.

4.32. We envisage that the current publication requirements for public interest reports would be retained, as would the audited body's responsibilities to consider the report at a meeting within one month of receipt and to publish a summary of the meeting's decision.

4.33. The costs of public interest reports will fall on the audited body. It has been suggested that the new direct contractual relationship between the audited bodies and their auditors could have, if unchecked, an impact on the ability or willingness of the auditor to issue a public interest report. However, we believe that if suitable safeguards are put in place for the resignation or removal of auditors, this will mitigate the risk.

4.34. We also propose to retain the power of an auditor to make a recommendation requiring a public response and to issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

<p>Q34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?</p>
--

Provision of non-audit services

CURRENT SYSTEM

4.35. The auditor may be best placed to carry out certain types of additional work for the audited body. Therefore, the Audit Commission allows additional work to be undertaken without prior approval from the Commission, if the auditor is satisfied that:

- performance of such work will not compromise, nor be reasonably perceived by the public to compromise, his independence and
- the value of the work in total, in any audit year, does not exceed a de minimis amount (set by the Audit Commission as the higher of £30,000 or 20 per cent of the total audit fee, excluding fees for the certification of grant claims and returns)

4.36. Auditors are required to establish procedures to identify and address any potential breaches of these requirements.

4.37. All such work must be:

- agreed in advance with the audited body, on the understanding that such work is discretionary and is not required to meet the auditors' statutory responsibilities and
- billed separately from the audit work

The Commission requires applications for approval to carry out work exceeding the de minimis threshold at least ten days before the start of the work.

OTHER SECTORS

4.38. In other sectors, such as the companies sector, statutory auditors are allowed to provide other non-audit services to the company.

4.39. However, the audit committee of the company has a role in considering all relationships between the company and the audit firm, including the provision of non-audit services and whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.

4.40. The audit committee should also develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor, and keep the policy under review. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

OUR PROPOSALS

4.41. We propose that auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any actual or perceived threats to the auditor's independence. We recognise that by adding a number of safeguards into the system we could reduce the number of auditors eligible for appointment to an audited body, which would in turn affect competition.

4.42. We propose that auditors should continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.

Q35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Public interest disclosure

CURRENT SYSTEM

4.43. Under the current framework, the Audit Commission and appointed auditors are prescribed persons under the Public Interest Disclosure Act 1998 for disclosures relating to “the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies”. The Audit Commission and appointed auditors consider information they receive as a result of a disclosure and determine what action, if any, to take in the context of their existing statutory and professional powers and duties.

4.44. We recognise the importance of the roles undertaken by prescribed persons including the Audit Commission and appointed auditors. It provides reassurance to workers that it is safe and acceptable for them to raise concerns internally and sets out the circumstances where the disclosure of the malpractice outside of the organisation is in the public interest and should be protected.

The Audit Commission’s role in public interest disclosure

The Audit Commission is a ‘prescribed person’ as set out in the Schedule to the Public Interest Disclosure Act. It exercises this role by:

- receiving the facts of a disclosure
- supporting the discloser by referring them to Public Concern at Work for further advice and guidance if subjected to victimisation or harassment;
- acknowledging receipt of the disclosure and stating in general terms what the procedures are
- forwarding information to the auditor and inform the discloser

The current role of the appointed auditor

The auditor’s role includes:

- evaluating the information provided by the Commission
- acknowledging receipt to the discloser, and providing an indication of the likely response, with an explanation for the decision
- undertaking appropriate audit work in response to the disclosure
- reporting the outcome of any work to the discloser and the Commission

OTHER SECTORS

4.45. The Financial Reporting Council's guidance for the audit committees of companies sets out a role for the audit committee in reviewing arrangements under which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

OUR PROPOSALS

4.46. We believe it is important that a similar system operates in the new framework. We propose that the Audit Commission's role (receiving, acknowledging receipt of and forwarding the facts of disclosure) should be broadly transferred to the audit committee of the local public body. The audit committee may choose to designate one of its independent members as a point of contact. As this role is an administrative role, which involves no need to consider the issue they are transferring, we do not see this as an additional burden on audit committees.

4.47. We envisage that the statutory auditor of the local public body would continue to be a prescribed person and would continue with his/her role with no change from the current system.

Q37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Transparency

CURRENT SYSTEM

4.48. Members of the public currently have rights to question the auditor of an audited body about its accounts and raise objections, if the audited body is not a health body, in respect of unlawful items of account or matters on which the auditor can make a report in the public interest. The auditor may also apply for a declaration to the Court. Objectors have the right to appeal to the Courts about an auditor's decision.

4.49. Auditors have only limited discretion to refuse to investigate objections, but the costs of investigating objections, which are recovered from the local public body and, therefore, funded by council taxpayers, can be disproportionate to the sums involved in the complaint, or to the normal audit costs of the local public body.

4.50. The right to object to the accounts was first introduced more than 150 years ago, at a time when the auditor was the only individual to whom an elector could raise issues of concern.

OUR PROPOSALS

- 4.51. The public can now raise concerns through a wide variety of appropriate avenues for redress, including the Local Government Ombudsman (in relation to maladministration) and the Information Commissioner (on matters concerning the rights that individuals have under the Freedom of Information and Data Protection Acts). Publication of all expenditure over £500 also makes spending more transparent and more readily available to the public.
- 4.52. With this in mind, we consider that the rights for local government electors to object to the accounts are both outdated and over-burdensome on auditors, local public bodies and council tax payers.
- 4.53. Under the new local audit framework, members of the public would retain the right to make representations to the auditor, raise issues with the auditor and to ask the auditor questions about the accounts.
- 4.54. While the right to make formal objections would be removed, the local public body would still be required to advertise that its accounts had been prepared and there will be increased publicity requirements for audited bodies. The auditor would still be open and transparent about the audit, and would consider any relevant representations from the public. The auditor would have discretion to decide whether to follow-up any issues raised by local citizens, having regard to the significance of the issue, the amounts of public money involved and the wider public interest. If the auditor decided not to consider a representation further, the decision would be amenable to judicial review, should the citizen who made the representation be dissatisfied with the decision.
- 4.55. We propose that auditors should also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Therefore, only information in connection with a public audit would be within the remit of a freedom of information request. However, we recognise that there are costs associated with responding to freedom of information requests which could have an impact on audit fees. We would also need to consider whether this could be detrimental to the auditor and audited body's relationship.
- 4.56. We also envisage that local public bodies should be required to publish their accounts and the auditor's report on the website.
- 4.57. We consider that these proposals would provide a balance between transparency and disproportionate cost.

Q38: Do you agree that we should modernise the right to object to the accounts? If not, why?

Q39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Q40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Q41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

Section 5

5. Arrangements for smaller bodies

Current system

The limited assurance audit regime

The limited assurance audit regime was first introduced in 2001-02 for local councils (parish meetings and parish and town councils) where neither income nor expenditure exceeded £500,000. This threshold was increased to £1m in 2006.

The regime is designed specifically to minimise the audit requirement upon, and cost to, these small bodies. The audits are based on the submission by the body to the auditor of an annual return that is subject to a desk review. The audit report provides a limited level of assurance to the body commensurate with the amount of work undertaken.

The basic audit approach is common to all smaller bodies. However, for those bodies with annual income or expenditure over £200,000, auditors are required to carry out additional testing as part of their audit approach to reflect the higher risk to public funds; this is referred to as the intermediate audit. In addition, on a random sample basis, 5 per cent of those bodies operating below the £200,000 threshold will also be selected annually for intermediate audit at no extra cost.

- 5.1. Under the current legislation, the statutory audit requirements for smaller bodies are the same as those for larger bodies. However, since 2002, the Audit Commission has ensured that these are met proportionately through a separate “limited assurance” framework for bodies with an income or expenditure less than £1m. The smallest bodies currently do not pay any fees for their annual audit.
- 5.2. To bring this into line with the framework under the Companies Act the £1m threshold for local public bodies is being increased to not more than £6.5m.

OTHER SECTORS

- 5.3. The companies and charities sector, both have arrangements in place to ensure a more proportionate level of audit for smaller bodies.

Charities

- 5.4. The Charities Act 1993 put in place a system by which some small charities could be subject to independent examination rather than a full audit.

Independent Examination v Audit (Charity Sector)

The two main differences between independent examination and audit relate to:

- Who can act
- The nature of the report.

	Who can act	The nature of the Report
Independent Examination	An independent person who is reasonably believed by the body to have the requisite knowledge and practical experience to carry out a competent examination of the accounts. No specific qualification is necessarily required but the person must have a good understanding of accounts.	Provides a "negative assurance" on the accounts. The independent examiner declares that no evidence was found of lack of accounting records, of accounts failing to comply with the records, nor of other matters that need to be disclosed.
Audit	Must be a registered auditor	An audit report will need to provide an opinion on the financial statements

5.5. The level of independent examination is dictated by the level of gross income of the charity.

Level of Gross Income	External scrutiny	Annual Report
Not exceeding £10,000	There is no requirement to have the accounts independently examined or audited	The trustees must prepare an annual report but it may be simplified.
Over £10,000 but not exceeding £100,000	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor	An Annual Report must be prepared but it may be simplified
Over £100,000 but not exceeding £500,000 (total assets not exceeding £2.8m)	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor. If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the 2006 Act.	An Annual Report must be prepared but it may be simplified
Exceeds £500,000 (or a charity whose gross assets exceed £2.8m and gross income exceeds £100,000)	A statutory audit is required (subject to specified exceptions) and the accounts must be audited by a registered auditor.	A full Annual Report must be prepared

- 5.6. Company charities used to be dealt with under the Companies Act 2006 system. However, from the financial year beginning on or after 1 April 2008 all charities (including company charities) are subject to the Charities Act 1993 system. The purpose of this change was to ensure that the scrutiny of small company charities was consistent with charity law requirements and in particular allowed for the independent examination of eligible small company charities.
- 5.7. Company charities which meet the Companies Act definition of a small company may elect for exemption from audit under the Companies Act and opt to have their accounts audited or independently examined under the Charities Act 1993.
- 5.8. Independent examination offers a lower cost alternative to charities that do not require the higher level of assurance that audit can provide. Changes effective from this date also result in new requirements for the audit of small groups when their accounts are prepared by parent company charities.

Companies

- 5.9. The Companies Act 2006 sets out the thresholds which must be met for a company to be deemed a small company. These are, at least two of the following three conditions:
- annual income or expenditure (gross income for charities) not exceeding - £6,500,000
 - balance sheet total not exceeding - £3,260,000
 - average numbers of employers not exceeding – 50
- 5.10. These thresholds are subject to periodic amendment.
- 5.11. There is exemption from audit for **certain** small companies if they are eligible and wish to take advantage of it. To qualify for audit exemption, a company must:
- qualify as small (per paragraph 5.9) **and**
 - have an income or expenditure of not more than £6.5m **and**
 - have a balance sheet total of not more than £3.26m
- 5.12. Even if a small company meets these criteria, it must still have its accounts audited if this is demanded by a member or members holding at least 10 per cent of the nominal value of issued share capital or holding 10 per cent of any class of shares. Public companies are not eligible for exemption.

OUR PROPOSALS

- 5.13. Both the limited assurance and independent examination regimes outlined above provide a simpler, more proportionate, form of external scrutiny than a full audit, but still provide assurance that the accounts of the bodies involved have been reviewed by an independent person.

- 5.14. We aim to bring arrangements for smaller local public bodies into line with other sectors. We are therefore considering a process under which the income and expenditure of a body determines what 'level' of audit or scrutiny is required; the greater the income/expenditure, the more scrutiny is required.
- 5.15. We propose that the 1,200 or so bodies with income or expenditure less than £1,000 would not be subject to an external examination or audit, as the risk to public funds is low and any external examination or audit fees would be disproportionate to their income or expenditure. These bodies do not currently pay a fee for an audit or examination, and requiring them to now do so would clearly increase their costs.
- 5.16. Bodies with an income or expenditure between £1,000 and the upper threshold of £6.5m would be subject to an independent examination rather than a full audit.
- 5.17. Examiners of small bodies should act for a maximum period of 10 years (which is in line with the current practices of the Audit Commission).
- 5.18. We propose that the independent examination of smaller bodies should be similar to that followed in the charities sector. As we have set out above, the charities sector provides for a reduced audit for bodies with income or expenditure below £500,000. However, the Audit Commission has provided limited assurance to all bodies with income or expenditure under £1m recently raised to not more than £6.5m. We are keen to ensure that smaller bodies are not disproportionately affected by our proposals. Therefore we propose a staged model such as the model followed in the charities sector, where the level of examination and the qualifications that the independent examiner must have are based on the income or expenditure of the body. However, this staged model would reflect the current £6.5m threshold used by the Audit Commission for their limited assurance regime. The independent examination of smaller bodies might therefore look as follows:

	Number	% small bodies market	Income/Expenditure	Scrutiny
Level 1	1,200	12%	Public bodies with expenditure less than £1,000	<ul style="list-style-type: none"> Existing governance and accounting arrangements Annual accounts published Positive confirmation that annual accounts have been produced and published via the precept request (or equivalent) No external audit/scrutiny
Level 2	Approx 6,400 bodies	64%	Public bodies with expenditure between £1,000 and £50,000	<p>As level 1, but</p> <ul style="list-style-type: none"> (Under option 1 below) the county or unitary council to appoint an independent examiner (no specific qualifications needed, but County or unitary council should assure itself that the relevant person has the requisite experience and expertise) to assess its accounts. In practice the Section 151 officer or full council, having regard to advice provided by the audit committee, would make this appointment. The independent examiner might be an officer of the county or unitary council. The body must also publish the details of the examiner.
Level 3	Approx 1,625 bodies	16%	Public bodies with expenditure between £50,000 and £250,000	<p>As level 2, but:</p> <ul style="list-style-type: none"> Existing internal audit arrangements Independent examiner must hold a professional qualification to assess its accounts.
Level 4	Approx 675 bodies	7%	Public bodies with expenditure between £250,000 and £6.5m	<p>As level 3, but</p> <ul style="list-style-type: none"> Independent examiner must hold a professional qualification and be registered as a public auditor.

Appointing the examiner

OPTION 1

5.19. We consider that the appointment process for the independent examiner should be proportionate. An audit committee could be a significant cost for a smaller body. Instead, where an independent examiner is required, we propose that the county or unitary authority should be responsible for appointing the independent examiner (see table above). If smaller bodies were responsible for appointing their own examiner in the absence of an audit committee there would be a lack of independence in the appointment process. In addition, they may not achieve a good price for this service.

5.20. If the county or unitary authority was responsible for the appointment this would provide a degree of independence to the appointment process for smaller bodies, and they would have the ability to appoint independent examiners for all of the smaller bodies in their areas, providing the opportunity to make savings through economies of scale.

OPTION 2

5.21. The small body would be required to make arrangements for the appointment of the independent examiner, **including** the involvement of an audit committee. This would give the body the freedom to make the necessary arrangements which might include joining up with other small bodies, either locally or providing similar services. The smaller bodies would be able to arrange a joint audit committee, with safeguards to provide for independence. Alternatively, the small body would be able to join with a larger local public body and utilise their audit committee. Under this option the scope of the examination would still be as set out in the table above.

Q42: Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Q43: Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

Q44: What guidance would be required to enable county/unitary authorities to:

- a.) Appoint independent examiners for the smaller bodies in their areas?**
- b.) Outline the annual return requirements for independent examiners?**

Who should produce and maintain this guidance?

Q45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Q46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Q47: Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

Public interest reporting for smaller bodies

5.22. There would be no auditor to receive queries or objections from the public, and there would be no public interest reporting. However, if the examiner identified issues giving cause for concern we propose that these could be raised with the audited body, or the county or unitary authority. The county or unitary authority could be given the power to appoint an auditor to then carry out a public interest report on the matters raised with the audited body. Sanctions could include a power to make the next precept (partly or wholly) conditional on the matters raised being addressed.

Q48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

Objections to accounts of smaller bodies

5.23. For bodies with an income or expenditure greater than £6.5 million we are proposing to modernise the system for dealing with objections to accounts.

5.24. In the case of smaller bodies, we propose that the independent examiner would be able to consider whether to refer issues raised by citizens to the proper officer (possibly the s151 officer) of the county or unitary authority. That authority would be provided with powers to take action, which might include appointing an auditor to consider those issues and report in public to the examined body. The costs for dealing with the representation would fall to the smaller body.

Q49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

Regulatory regime for smaller bodies

5.25. For smaller bodies the more proportionate approach described of independent examination would not give rise to the same level of scrutiny as an external audit.

5.26. However, if appointing the independent examiner to the smaller body, or if provided with powers to take action, which might include appointing an auditor to carry out a public interest report, the county or unitary council would, essentially, be the regulator for this sector.

Q50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Section 6

6. List of consultation questions

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?
15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?
19. Is this a proportionate approach to public involvement in the selection and work of auditors?
20. How can this process be adapted for bodies without elected members?
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?
27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?
28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?
29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?
31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?
38. Do you agree that we should modernise the right to object to the accounts? If not, why?

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?
41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?
44. What guidance would be required to enable county/unitary authorities to:
- a.) Appoint independent examiners for the smaller bodies in their areas?
 - b.) Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?
45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?
46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?
47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Appendix A

Audited bodies' published accounts – current arrangements

The annual accounting statements that audited bodies, other than NHS bodies and probation bodies, are currently required to publish are prescribed in Accounts and Audit Regulations made under section 27 of the Audit Commission Act 1998. A new consolidated set of the regulations has recently been issued. The accounting statements for all the bodies must cover the year ending on 31 March.

The larger bodies (broadly those with annual income or expenditure of more than £6.5m) must produce a “statement of accounts”, based, as from the 2010-11 financial year, on International Financial Reporting Standards as those standards are applied by the *Code of Practice on Local Authority Accounting in the United Kingdom*, published by CIPFA/LASAAC. The statement must also conform to specific requirements set out in the Accounts and Audit Regulations and other legislation. A statement of accounts includes all the elements that would be expected in a comprehensive set of accounts, including:

- movement in reserves statement
- comprehensive income and expenditure account
- balance sheet
- cash flow statement, and
- supporting notes, including a summary of significant accounting policies

Where the body has significant subsidiaries or associates Group Accounts must also be included. The statement of accounts is accompanied by a statement of internal control or annual governance statement, setting out the body's annual assessment of how it is managing and controlling the risks it faces in achieving its aims and legal obligations.

The smaller bodies are given a choice on the form of their annual accounting statements. They can prepare either:

- a statement of accounts on the same basis as a larger body or
- an income and expenditure account and statement of balances or
- where the body's annual income or expenditure is no more than £200,000, a record of receipts and payments

For the second and third options the requirements are specified in an Annual Return that the body is required to present to the auditor and publish. The form of the Annual Return is laid out in *Governance and Accountability for Local Councils, a Practitioners' Guide*, available from the National Association of Local Councils.

The accounting statements for both the larger and smaller bodies must be audited (for smaller bodies the audit is a ‘limited assurance’ - a simpler, more proportionate, form of external scrutiny than a full audit). The statements, together with the auditor's opinion on them, must then be published, and this should be done by 30 September following the financial year end. The larger bodies are required to publish the statements on their websites, and the smaller bodies by displaying them within their area, though both are free to use other means of publication in addition.

Appendix B

List of bodies to which the Audit Commission appoints auditors in England

The audit bodies which are specified in primary legislation are³:

- A local authority (meaning a county council, district council, London borough council and a parish council).
- A joint authority (which means an authority established by Part 4 of the Local Government Act 1985, includes metropolitan county fire and rescue authorities).
- The Greater London Authority.
- Passenger Transport Executive.
- A functional body (meaning Transport for London, the London Development Agency, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority).
- The London Pensions Fund Authority.
- The London Waste and Recycling Board.
- A parish meeting of a parish not having a separate parish council.
- A committee of a local authority, including a joint committee of two or more such authorities.
- The Council of the Isles of Scilly.
- Any Charter Trustees constituted under section 246 of the Local Government Act 1972.
- A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the National Health Service Act 2006.
- A Port Health Authority constituted under section 2 of the Public Health (Control of Disease) Act 1984.
- The Broads Authority.
- A national park authority.
- A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000.
- A police authority established under section 3 of the Police Act 1996.
- A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies.
- An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities).
- A licensing planning committee.
- An internal drainage board.
- A local probation board established under section 4 of the Criminal Justice and Court Services Act.

³ It is proposed through the Police Reform and Social Responsibility Bill that police and crime commissioners and chief constables will be added to schedule 2 of the Audit Commission Act 1998 and thereby become a body for which the Audit Commission will appoint auditors to. In addition, the Health Bill refers to GP Consortia being brought within the Audit Commission Act 1998.

- A probation trust.
- An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009.
- A combined authority established under section 103 of that Act.
- The accounts of the collection fund of the Common Council and the accounts of the City fund.
- The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995.

Appendix C

Recognised supervisory bodies and recognised qualifying bodies in England

In the companies sector, audit firms must be registered with, and subject to supervision by a recognised supervisory body and persons responsible for company audit work at a firm must hold a recognised qualification awarded by a recognised qualifying body.

There are currently five recognised supervisory bodies:

- Association of Authorised Public Accountants
- Association of Chartered Certified Accountants
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

and six recognised qualifying bodies:

- Association of Chartered Certified Accountants
- Association of International Accountants
- Chartered Institute of Public Finance and Accountancy
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

Department for Communities and Local Government
© Crown Copyright, March 2011

ISBN: 978 1 4098 2933 1



14 April 2011

Mr Nadeem Aziz
Chief Executive
Dover District Council
White Cliffs Business Park
Dover
Kent
CT16 3PJ

Mobile line 07765 898682
Email a-mack@audit-
commission.gov.uk

— Dear Nadeem

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Dover District Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee set by the Audit Commission for Dover District Council is £117,800. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee. This is shown below.

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 6187 www.audit-commission.gov.uk

	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£117,800	£124,000

In addition, I will be required to certify a number of grant claims and returns prepared by the Council. The work required in this area is variable and depends on the approach specified by government departments. I will seek to place reliance on the Council's control environment and the work of internal audit in order to minimise the cost to the Council. At this stage, I anticipate fees in the region of £41,500.

I will issue a detailed audit plan in early 2012. This will set out any risks I have identified in respect of the financial statements audit and the vfm conclusion. The plan will also set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Finance. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Governance Committee.

I propose to review your updated Medium Term Financial Plan and new arrangements with other councils for the provision of shared services to support the vfm conclusion. I will issue a detailed project plan before work begins.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Andy Mack District Auditor	a-mack@audit-commission.gov.uk 07765 898682	Andy is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Audit Committee and issuing the auditor's report.
Lynn Clayton Audit Manager (covering for Debbie Moorhouse maternity leave)	l-clayton@audit-commission.gov.uk 07881 836129	Lynn manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Sarah Bubb Principal Auditor	s-bubb@audit-commission.gov.uk 07970 063729	Sarah leads the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Andy Mack, District Auditor

cc Mike Davies, Director of Finance

cc Councillor David Mayes, Chair of the Governance Committee

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Governance Committee.

Table 1

Planned output	Indicative date
Audit plan	February 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (to the Director of Finance) if required	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

Interim Audit Memorandum

Dover District Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Scope of interim audit	2
Review of financial systems	4
Overall findings	4
Payroll.....	4
Cash receipting system	5
IFRS.....	5
Appendix 1 Action Plan	7

Scope of interim audit

1 Each year during our interim audit we review the key financial systems that feed into a material balance in the financial statements. We update our systems documentation and perform a walkthrough of a transaction through each of the systems to confirm the key controls that are in place.

2 We test the key controls for each material system over a three-year cyclical plan. If our walkthrough confirms the system and controls have not changed from the prior year, we can rely on the assurance obtained from our cyclical testing. This reduces the amount of substantive testing we need to complete during the year-end audit visit.

3 We also review and test the IT control environment and key IT controls during the audit. Our IT controls work is currently in progress and will be completed during the final accounts audit visit.

4 During our interim visit in February 2011 we revisited our documentation and walked through the following systems:

- general ledger;
- accounts receivable;
- accounts payable;
- council tax;
- NNDR;
- benefits;
- housing rents;
- fixed assets;
- cash;
- housing repairs;
- treasury management;
- payroll and
- car parking income.

5 We reviewed any changes made to the systems and their key controls. This included the transfer of payroll from the internal payroll department to an external provider on 1 April 2010.

6 Based on our cyclical plan we are reviewing controls in the following systems this year:

- **General ledger** - We tested a sample of journals covering the period from April 2010 to March 2011. We reviewed the control accounts prepared in December 2010 and will review the control accounts prepared at the year-end as part of the final accounts audit.

- **New payroll process** (processing was outsourced from April 2010) - We have documented and tested the new payroll processes and controls at the Payroll shared service provider, Dover District Council and the HR shared service.
 - **Housing repairs** - We have tested all key controls for the 11 month period up to February 2011. We will complete year end testing as part of the final accounts audit.
 - **Council Tax** - We have tested all key controls for the year to March 2011, except for review of the year-end control account reconciliation and authorisation of council tax write-offs. We will complete this testing during the year-end audit visit.
 - **NDR** - We have tested all key controls for the 11 month period up to February 2011. We will complete year end testing as part of the final accounts audit.
- 7 We have continued to work with the Council as it prepares for the first year of IFRS. This has included reviewing the revised accounting policies and the work completed by the Council to date in relation to the restatement of the 2009/10 financial statements
- 8 The results of the work completed to date are set out in this report.

Review of financial systems

Overall findings

9 Except for the payroll system, we hope to be able to place reliance on the key controls within the Council's main financial systems, as in previous years. Based on work completed to date, key controls in all systems other than payroll are operating as intended, providing us with good assurance for opinion purposes. However, we have yet to complete all our planned testing (as summarised above) and need to ensure the key controls remain in place for the rest of the year. We will complete our work on controls at our final accounts visit in July 2011.

10 We have highlighted some issues from work completed so far that we need to report to management and those charged with governance (the Governance Committee). These issues are set out in the following paragraphs.

Payroll

11 As part of our pre-statements work, we have reviewed the new payroll system provided across East Kent by the shared service provider (the provider). During our work both we and officers at the East Kent District Councils identified that some key controls managed by the provider were not operating effectively. In particular:

- **General ledger coding:** During the initial period of the contract there appeared to be insufficient controls in place at the provider to ensure payroll costs were appropriately classified. Officers at the East Kent District Councils had to intervene manually several times to correct errors. Because of these issues Dover District Council's finance team established a process to check and correct payroll coding prior to the processing of the payroll data in the Council's ledger.
- **Data security:** East Kent District Council staff were able to view very high level records relating to the provider's non East Kent client. They were not able to see any personal details for the other client's employees or other sensitive information. However, the officers did raise concerns about the security of data on the system.
- **Incorrect payments:** Officers at Dover District Council identified incorrect payments made outside the payroll system via CHAPS. Manual corrections were required to address this.
- **Evidencing of controls:** We identified scope for improved documentation of controls by the provider.

12 We have discussed our findings with officers at Dover District Council. We note the action taken by the Council to maintain good controls at a local level, including detailed review of reports and data produced by the provider. This has enabled the Council to identify and correct payroll errors where appropriate. We understand action has also been taken by the provider to strengthen internal controls and address the issues raised during the year.

Recommendation

R1 Continue to work with the payroll shared services provider to ensure that appropriate controls are in place and operating effectively.

Cash receipting system

13 The Council introduced a new cash receipting system (AIM) in August 2010. Although it appeared to be operating effectively, it was later found, by officers, that some cash receipt amounts were being corrupted when they were transferred to the bank account codes in the cash book. This issue was identified through the completion of monthly bank reconciliations, but had not been resolved with ICT at the date of our last audit visit in April 2011.

Recommendation

R2 Continue to work with ICT to resolve the problems with the cash receipting system and ensure that the general ledger cash balances are correctly stated and fully reconciled in the year end balance sheet.

14 Council officers have advised us that ICT have subsequently made a number of changes to how the data is processed from AIM into the general ledger (eFIN) to resolve this issue. The Council has completed internal testing to rectify the corruption issues. As a result the majority of the 2010/11 unreconciled data has now been reconciled. We will review the reconciliation of the data during our year end audit visit.

IFRS

15 We have continued to work with the Council as it prepares for the first year of IFRS. The Council's progress in completing its IFRS restatement of the 2010/11 comparatives has been delayed as staff changes bed in. As a result we have had to reschedule our audit visits to accommodate this. However, the Council has recently made more significant progress in its preparations and has now substantially completed its restatement of the 1 April 2009 and 31 March 2010 balance sheets.

16 Due to the delays in the completion of the restatement we will review the following key areas of the IFRS restatement as part of our post-statements audit:

- **Valuation of investment properties:** Properties need to be valued at 'existing use fair value' when they are re-categorised as investment properties. This revaluation is not yet complete.
- **Identification of embedded finance leases:** The Council's review of contracts for embedded leases is not yet complete. This includes major contracts such as those for waste collection and housing repairs.
- **Componentisation of non current assets:** The Council is in the process of separately identifying and valuing material expenditure on components or separate parts of assets incurred from 1 April 2010.
- **Comprehensive Income and Expenditure Statement:** This replaces the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses. We did not review this statement during our last audit visit in April 2011 as our focus was on the restatement of the Balance Sheet (Statement of Financial Position).
- **Cash Flow Statement:** The restated cash flow statement was not available at our last audit visit.
- **Segmental reporting:** We will review the Council's reporting of the breakdown of the main operating activities that are reported to its chief operating officer as part of our review of the 2010/11 financial statements.

Appendix 1 Action Plan

Recommendations

Recommendation 1

Continue to work with the payroll shared services provider to ensure that appropriate controls are in place and operating effectively.

Responsibility	Finance team Payroll Lead
-----------------------	---------------------------

Priority	High
-----------------	------

Date	30/6/2011
-------------	-----------

Comments	The Council is aware of the issues that have arising during the transition to the new payroll provider and is continuing to work with the provider in their resolution.
-----------------	---

Recommendation 2

Continue to work with ICT to resolve the problems with the cash receipting system and ensure that the general ledger cash balances are correctly stated and fully reconciled in the year end balance sheet.

Responsibility	Head of Finance
-----------------------	-----------------

Priority	High
-----------------	------

Date	30/6/2011
-------------	-----------

Comments	ICT have made a number of changes to how the data is processed from the cash receipting system to the general ledger. The majority of the unreconciled 2010/11 entries have now been reconciled.
-----------------	--